

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

Presented below is a summary of the 2013-14 Second Interim Budget Report which encompasses all local budget revisions. Pursuant to Education Code section 35035 (g), 42130 and 42131, the Governing Board must certify twice each year that the district has the ability to meet its financial obligations for the remainder of the fiscal year and for the two subsequent fiscal years. The Second (2nd) Interim Report includes budget-to-actual expenditures of the current fiscal year through January 31, an estimate of the budget for the remainder of the current year, and budget projections for the two subsequent fiscal years.

State Budget:

On June 27, 2013, the Governor signed the 2013-14 Budget (AB 110), and on July 1, he signed education trailer bill AB 97 (and clean-up bill SB 91) that establishes the Local Control Funding Formula (LCFF). The budget provision increased funding for schools by \$2.1 billion to implement the LCFF. Additionally, the budget provides \$1.25 billion in one-time money for Common Core implementation, and \$250 million in one-time funds for Career Technical Education grants. MetroED will not receive any funding for Common Core Implementation, and will compete for funds in the Career Technical Education (CTE) grant.

Specifically for Adult Education and ROC/Ps:

- LEAs are required to maintain funding levels for Adult Education and ROC/Ps, based on the amounts expended for these programs in 2012-13.
- This minimum funding level must be maintained for 2013-14 and 2014-15.
- LEAs are not required to count any local contribution towards meeting the minimum funding level.

Impact of the LCFF on MetroED:

- Prior to the LCFF, ROC/Ps earned apportionment based upon student attendance hours. Students also earned attendance in their regular education programs.
- With the enactment of the LCFF, the State provided a Maintenance of Effort (MOE) to keep funding ROC/Ps for two “transition” years while districts and ROC/Ps determine the best next course of action. The Career Pathways Trust Grant was added to the budget to provide additional funds for CTE programs which meet the grant requirements including regional focus and collaboration with colleges and business partners.
- The base funding for districts within the LCFF is supplemented with separate funds for CTE programs (estimated to be \$219/ 9-12 ADA) but there is no accountability within the LCFF that these funds be spent on CTE programs.
- ***Beginning in 2015-16, there are NO ENTITLED FUNDS for ROC/Ps.***

Multi-Year Projections:

It's anybody's guess now! We have provided a multi-year projection for 2014-15 and for 2015-16. As stated earlier, we have no indication of what funding will be like in the 2015-16 school year. We do know that legislation is being pursued to allow for additional funding that could be used in our programs, but nothing has been passed. As of right now, the 2014-15 multi-year projection is based upon the MOE with static funding and similar expenditures for both programs. For 2015-16, the district is assuming the same level of funding. As costs continue to rise while revenue either declines or remains static, the district will be deficit spending in both programs next year and each subsequent year. The Adult Education fund ends the third year with only \$7,320 remaining as a result of the year-over-year of deficit spending. Reserve funds are sufficient to support the deficit spending while funding issues are resolved. In the event that funding issues are not resolved, the JPA will evaluate the options to continue. When the 2014-15 budget is prepared and the third year out becomes the 2016-17 year, there will be no beginning balance for the adult education program. A negative budget certification will result as the program will not be able to meet its obligations in that year as things currently stand. The district is taking steps to reduce costs over the two year period to reduce the deficit while also trying to maintain a viable program for our students.

Some assumptions to the multi-year projection include:

- Static revenue levels.
- The loss of Los Gatos-Saratoga Joint Union High School District to the JPA.
- Health and welfare benefits increase of 5% annually.
- Additional cost for Life, Dental, and Income Protection Insurance as we exit the San Jose Unified District plans.

Ending Balance/Reserves:

The Ending Balance in the general fund is expected to increase by just over \$200,000, down from over \$500,000 at first interim. This is due to the increase in expenditure and slight decrease in revenue projected at this point in the school year as more of the variables are known. Both the Human Resources and the Fiscal departments have been auditing and correcting position control issues throughout the year to reflect actual salaries and benefits for all staff.

Reserves have been designated in the ending balance for future liabilities and funding deficits to protect the district and the JPA districts as we move further in to the future with uncertain funding.

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 loss of Los Gatos/Saratoga leaving the JPA, loss of revenue is projected to be \$153,000 annually, any loss related to capital assets is not yet known.

Ending Balance General Fund (ROP)	Original Budget	First Interim Budget	Second Interim Budget
Beginning Balance	5,038,775	5,038,775	5,038,775
Ending Balance (Projected)	4,666,517	5,874,495	5,243,408

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 are unsustainable.

Ending Balance Adult Education Fund	Original Budget	First Interim Budget	Second Interim Budget
Beginning Balance	1,562,277	1,562,277	1,562,277
Ending Balance (Projected)	1,263,836	1,338,503	1,266,716

Revenue:

General Fund revenues are projected based upon the Maintenance of Effort enacted with the State Budget. Excess CalWORKs funds increased Other State Revenue by \$30,099 while Local Revenue was reduced by \$44,155 because of a change in the Apprenticeship program. For the General Fund (ROP) the revenues are outlined below:

Revenue General Fund (ROP)	Original Budget	First Interim Budget	Second Interim Budget
Federal Revenue	63,001	75,092	75,092
Other State	11,699,952	12,918,536	12,948,635
Other Local	2,050,010	2,018,283	2,121,191
Total Revenue	13,812,963	15,011,911	15,144,918

For the Adult Education Fund, the revenues increased by \$94,837 for Excess CalWORKs funds and the other local revenue was reduced by \$31,145 due to decrease in fee collections. For the Adult Education Fund the revenues are outlined below:

Revenue Adult Education Fund	Original Budget	First Interim Budget	Second Interim Budget
Federal Revenue	275,081	456,471	456,471
Other State	0	0	94,837
Other Local	3,418,820	3,329,446	3,398,801
Total Revenue	3,693,901	3,785,917	3,850,109

Expenditures:

Expenditures projections have changed by \$334,344 in the General Fund (ROP) from the first interim budget primarily due to the purchase of the signage and wireless technology for the district. Minor adjustments have been made to salaries and benefits due to some movement of staff and/or adjustments made as the Position Control system becomes more reliable.

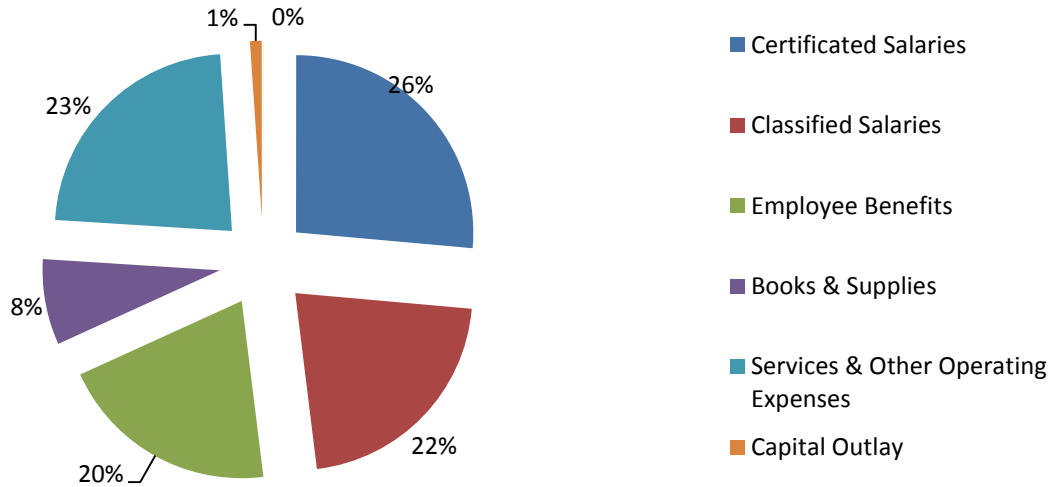
Expenditures General Fund (ROP)	Original Budget	First Interim Budget	Second Interim Budget
Certificated Salaries	3,452,154	3,485,348	3,434,690
Classified Salaries	2,865,097	2,714,383	2,812,207
Employee Benefits	2,649,778	2,653,228	2,620,094
Books & Supplies	953,462	978,613	1,015,039
Services & Other Operating Expenses	2,705,400	2,793,669	2,980,415
Capital Outlay	20,000	11,600	137,377
Other Outgo	1,937,482	1,937,482	1,908,866
Total Expenditures	14,583,373	14,574,343	14,908,687

Expenditures projections have increased by \$115,978 in the Adult Education Fund from the original budget. There are adjustments made to salaries and benefits due to some movement of staff and/or adjustments made as the Position Control system becomes more reliable as well as an increase in classified positions or hours. District wireless technology has also been charged partly to Adult Education based on the revenue ratio of 80% to SVCTE and 20% to SVAE.

Expenditures Adult Education Fund	Original Budget	First Interim Budget	Second Interim Budget
Certificated Salaries	1,637,548	1,655,927	1,645,668
Classified Salaries	1,028,577	992,650	1,021,390
Employee Benefits	1,071,529	1,088,412	1,140,428
Books & Supplies	141,481	144,470	155,514
Services & Other Operating Expenses	354,932	372,596	405,114
Capital Outlay	9,638	7,000	8,819
Other Outgo			
Total Expenditures	4,243,705	4,261,055	4,377,033

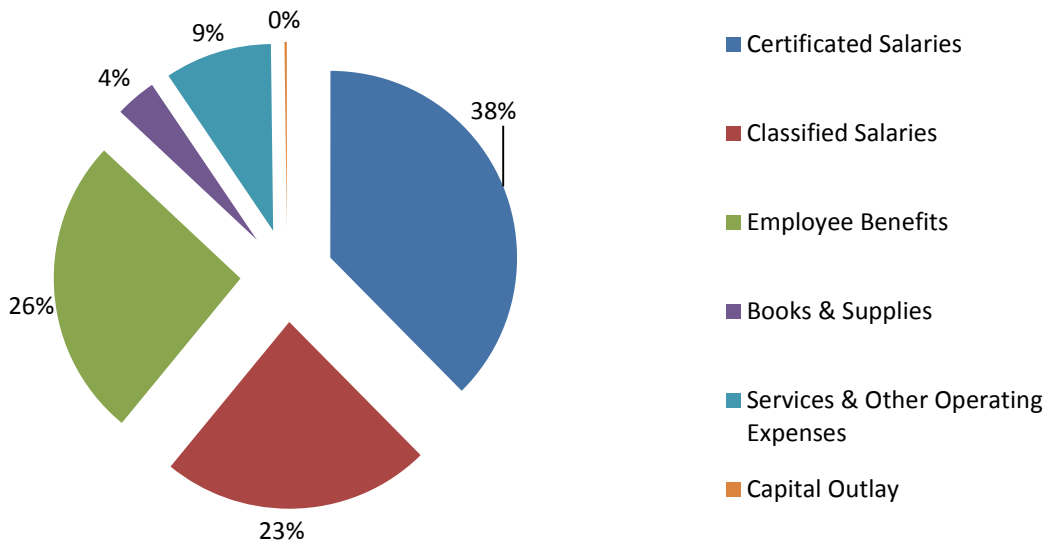
In the General Fund (ROP), salaries and benefits account for 60% of overall expenditures. These expenditures include the automatic 5% increase to health and welfare benefits, all step and column movement and any new professional growth or longevity stipends being paid. Below is a graph indicating the ratio for the various expenditure object codes:

General Fund (ROP)



For the Adult Education Fund, the salaries and benefits account for 87% of overall expenditures. This is a very high ratio which leaves little funding available to accommodate materials and technology upgrades and staff development. As stated at each budget cycle, the reliance on the reserves for ongoing expenditures in the Adult Education Fund is a concern.

Adult Education Fund



Critical Issues:

The most critical issue facing MetroED is stable funding. There have been several proposed bills for CTE funding in Sacramento. MetroED, through Superintendent Alyssa Lynch's leadership has taken the lead to apply for the Career Pathways Grant for some additional funding. At this point in time, however, there is no source of funding available from which to project revenues beyond next year. School Services of California will work with the JPA Districts regarding developing a funding structure that will carry us forward. 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 disappointing.

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

Summary:

The most difficult communication is that which is uncertain and seemingly innocuous to the listener. However, for MetroED and every other ROP, the balance of power has shifted from a time when ROC/Ps and Adult Educations were entitled to funding based upon ADA and innovative programs could be expanded and new opportunities for students were provided. Now ROC/Ps and Adult Educations is a draw from the general fund of a school district or county office and would most likely be eliminated as the demands on those general funds become greater. We've all heard the Governor talk about the STRS and PERS increases; he has made it very clear that the State will not be picking up those additional costs. So, as school districts accept the funding levels provided in the LCFF, there will be additional costs to bear that will offset any new funding. At some point in the future, districts will be faced with another financial crisis, and programs such as MetroED may not weather the next storm unless legislation is enacted to protect these valuable programs.

Respectfully submitted,

Debbie Fry
Chief Business Officer