Metropolitan Education District
Executive Summary
2014-15 Proposed Budget

This summary provides an overview of the 2014-15 Proposed Budget. The inaugural year of the Local Control Funding Formula (LCFF) is coming to a close. Districts are struggling with developing procedures to comply with the regulations of the LCFF as they unfold. It has been quite a roller coaster ride for many school districts. As School Services pointed out in the May Revise presentation, "our past financial problems have stemmed from over-exuberance in good times – not just the onset of bad times." Conservatism and solid reserves are a focal point of the Governor's Budget.

State Budget:
There wasn't much change from the January proposal to the May Revise in the Governor's proposal. There is more work to do. State revenues are up over the January estimate but there isn't much impact to the Proposition 98 side of the budget. For school districts, the May Revise retires all deferrals, eliminating some of the cashflow burden, but we still have the Education Protection Account (EPA) deferrals in place as part of the Proposition 30 tax increases so the cash received by school districts will still be received on a somewhat deferred schedule. The biggest surprise for many school districts has to do with the aggressive STRS employer cost increases over the next seven years, beginning in July.

For Metropolitan Education District, there is no funding proposed in the budget. In January, the Governor proposed to make Adult Education a single-categorical program, but nothing surfaced in the May Revise to make that a reality. There was no mention of ROC/P funding in either January or May. The 2014-15 year is the final year of the Maintenance of Effort. There is a movement in the Assembly to extend that, but we will have to wait until the final budget is adopted to know if it will occur.

For the adult education programs, the deficit spending is continuing in the budget year with a balanced budget and projected staff reductions in the subsequent year. As we continue to wait for a funding formula for Adult Education, staff are working with the South Bay Consortium for Adult Education to formalize the consortium and delivery of services to students.

Multi-Year Projections:
School Services of California wrote, "Multi-year projections remain the cornerstone of financial planning and long-term solvency. When we add a dollar in ongoing revenue in the first year, we improve the three-year projection by three dollars." As we continue to be faced with an uncertain funding future it is even more important to be sure we are not deficit spending as that is simply borrowing from future students for today's students. The Governmental Accounting Standards Board (GASB) has determined that the following information is necessary to assess an agency's economic condition:

1. Projections of cash inflows and outflows
2. Projections of financial obligations including OPEB and long-term debt

3. Projection of annual debt payments
4. Narrative of dependencies on other agencies

The charts below will summarize the multi year projections for the two operating funds (ROP and Adult Ed) which project the cash inflow and outflow. The financial obligations including our Other Post-Employment Benefits (OPEB) and long-term debt are included in the projections. Any debt payments are also included, and this narrative describes our current risk due to dependency on State and district funding.

The District can meet its obligations in the current and subsequent two years. The multi-year projections include the reductions of staff and corresponding costs for the PARS program. We included an anticipated increase in the cost of water as the drought in California continues. We've also included the anticipated increase to the employer contributions for pension plans. It is important to note that revenues are projected at current levels while expenses are increasing. The ROP fund includes an estimated amount to provide back to districts for counseling support in the hopes of increasing enrollment and exposure to the programs for students. The absence of any future funding will result in the closure of more programs in order to be fiscally solvent.

Fund 010 (ROP)	2013-14 Estimated Actuals	2014-15 Proposed Budget	2015-16 Multi-Year Projection	2016-17 Multi-Year Projection
REVENUE				
Total Revenue	14,957,051	14,543,144	14,154,539	14,154,539
EXPENSES				
Certificated Salaries	3,424,199	3,638,765	3,672,836	3,696,224
Classified Salaries	2,770,278	2,539,086	2,562,474	2,585,862
Employee Benefits	2,519,849	2,323,506	2,398,177	2,467,902
Books & Supplies	1,076,062	1,151,307	993,836	993,836
Services & Other Operating Expenses	2,972,350	2,898,648	2,331,569	2,331,569
Capital Outlay	47,159	46,733	46,733	46,733
Other Outgo	1,854,431	2,035,384	2,035,384	2,035,384
Transfers Out	16,182	16,182	16,182	16,182
Total Expenses	14,664,328	14,649,611	14,057,192	14,173,692
Net Increase/Decrease	276,542	-106,467	97,348	-19,152

The Adult Education program will maintain an acceptable level of reserve for the multi-year projection with the projected reductions next year. For the Adult Education program, severe staff cuts are anticipated in the 2015-16 year to bring the expenditures back in to balance with revenues. The result will be adequate reserves going forward. As the South Bay Consortium for

Adult Education continues to work through the issues of a collaborative, seamless delivery system for adults there will be further changes.

Fund 110 (Adult)	2013-14 Estimated Actuals	2014-15 Proposed Budget	2015-16 Multi-Year Projection	2016-17 Multi-Year Projection
REVENUE				
Total Revenue	3,684,465	3,518,543	3,518,543	3,518,843
EXPENSES				
Certificated Salaries	1,581,133	1,574,098	1,308,002	1,308,002
Classified Salaries	1,030,622	909,685	757,416	757,416
Employee Benefits	1,065,681	1,085,649	961,408	961,408
Books & Supplies	182,703	126,849	126,850	126,849
Services & Other Operating Expenses	401,226	367,578	364,868	364,868
Capital Outlay	0	0	0	0
Other Outgo	0	0	0	0
Transfers Out	0	0	0	0
Total Expenses	4,263,269	4,063,860	3,518,543	3,518,543
Net Increase/Decrease	-578,804	-545,317	0	0

Ending Balance/Reserves:

Ending Balance General Fund (ROP)	2013-14 Estimated Actuals	2014-15 Proposed Budget
Beginning Balance	5,038,775	5,315,316
Ending Balance (Projected)	5,315,316	5,208,849

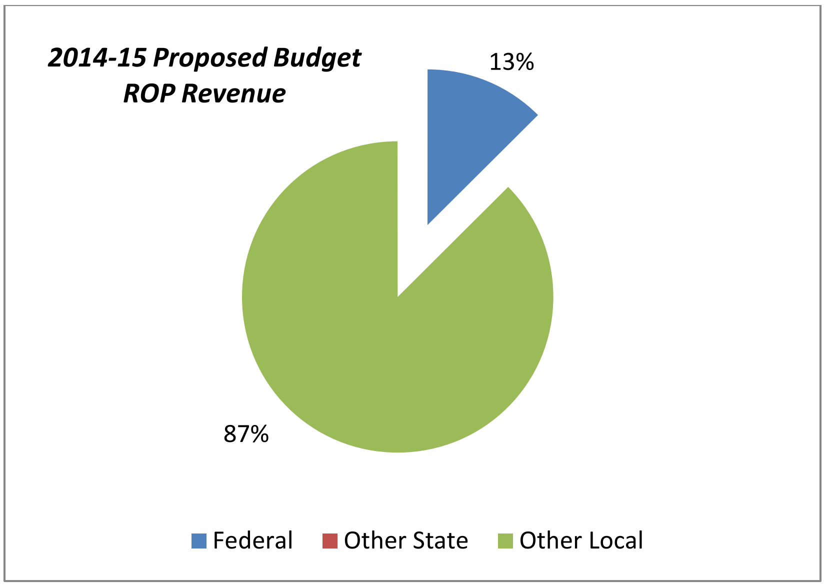
The ending balance for both funds is sufficient to meet the State Requirement for the budget year and two subsequent years. The recommendation from School Services is to keep a conservative ending balance in order to absorb the fluctuations in spending and program needs. Since our district is not eligible for borrowing and the obligations would fall back to the JPA member districts, a higher reserve is necessary.

Ending Balance Adult Education Fund	2013-14 Estimated Actuals	2014-15 Proposed Budget
Beginning Balance	1,562,276	1,212,218
Ending Balance (Projected)	1,212,218	683,084

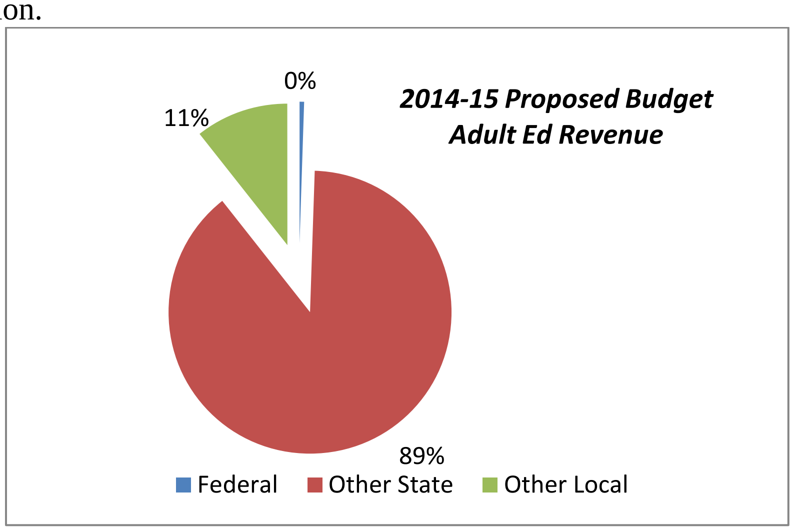
Revenue:

The political risk of the current revenues for both ROP and Adult Education is an ongoing concern. The Governor selected a rainy day fund for the State reserves as a priority in the May Revise which consequently left no room for funding for our programs.

General Fund revenues are projected to change by 2.8% which is reflective of a contract for Apprenticeship that hasn't been received as of the budget preparation as well as the closing of Capitol High. There is still the possibility of an additional apprenticeship agreement. As is evident in the chart below, 87% of total revenue is that revenue which is dependent upon the State and/or school district participation.

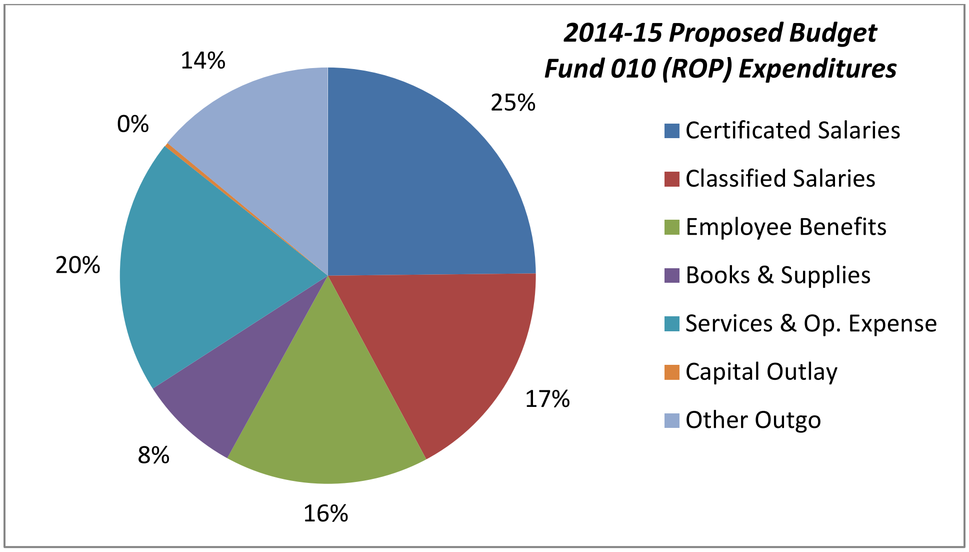


For the Adult Education Fund, the revenues are projected to be reduced by 2.67% based on reductions to the Workforce Investment Act Grant (WIA) and CalWORKs funding. Similar to the ROP budget, the Adult Education revenue is 89% dependent upon the State and/or school district participation.

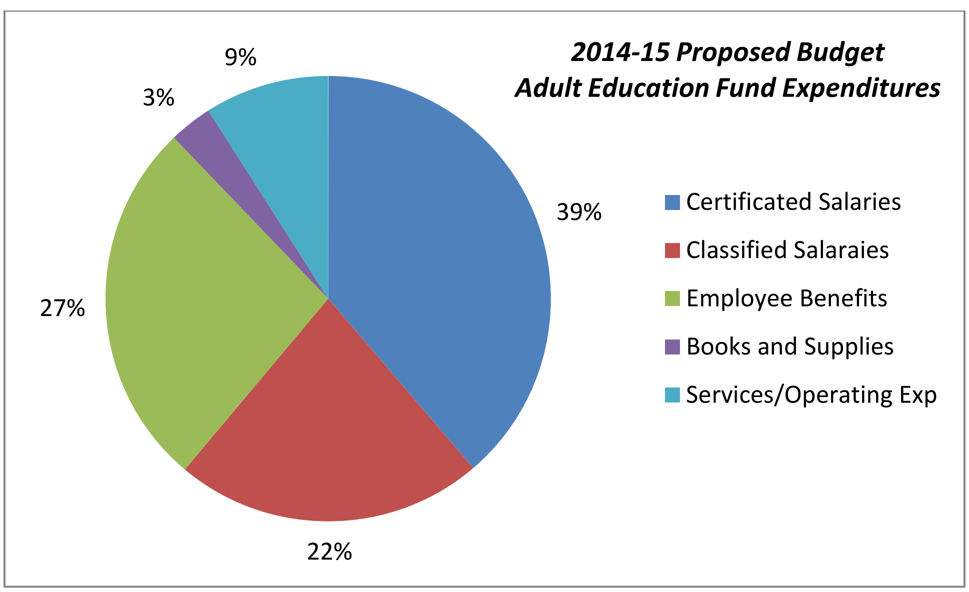


Expenditures:
Expenditures projections include increases to pension and health care costs as well as the attrition of staff and the salary schedule movement, professional growth, and salary increases associated with collective bargaining.

For the general fund, the total salary and benefit costs remain at 58% of total expenditures. The satellite payments and increase for counseling services is expected to be 14%.



For the Adult Education Fund, expenses decreased by approximately 1% as the majority of the savings from the PARS program was realized within the ROP program. Cuts were made in the adult education program, but with spending outpacing revenues, deeper cuts are needed. The total salary and benefit costs for Adult Education are 84% leaving little room for spending reductions that will have an impact that aren't related to salaries and benefits.



Critical Issues:
Again this year, the most critical issue facing MetroED is stable funding. We are hoping to see an extension of the Maintenance of Effort in order to keep our programs viable. That would be our minimum need. If we could stabilize an ongoing funding source, the issues surrounding an unstable funding environment would be mitigated. Everything from recruiting and retaining qualified staff to agreements for normal operating expenses is affected by the lack of stable funding.

For Adult Education, as previously stated the reliance on reserves for ongoing expenditures is a major concern. The multi-year projection addresses the issue with a balanced 2015-16 budget which comes at the price of losing even more staff and programs.

Pension plan employer cost increases are projected in the budget and multi-year projection, but as the rising costs of employees continues, it will be more difficult to offer competitive wages and health benefits or to maintain staffing levels.

Health care reform (The Affordable Care Act) is beginning to be implemented and at some point will begin to cost employers as well. The Governor set aside a large portion of the revenue to fund Medi-Cal in anticipation of the ACA which will continue to encroach upon available funding for innovation in school districts.

PARS Retirement Incentive:
In order for a retirement incentive to save money it is essential to ensure that vacant positions are left vacant and/or changed to a different salary to ensure the ongoing savings. It was very critical to the management staff as the calculations were being done to ensure that a viable incentive, if offered, would continue to save the district in salary and benefit expenditures.

The overall cost of the PARS program is estimated to be $69,561 in fees plus $1,081,140 in the actual incentive for employees for an estimated total of $1,150,701 payable over five years. A total of 23 faculty and staff members took the incentive (2 Administrators; 7 AFT Teachers; 2 CTA Teachers and 12 Classified Staff members). Two additional employees retired or are retiring without the incentive leaving a total of 25 vacancies out of 162 staff members (15.4% of total staff). Of those vacancies, eight positions will not be refilled (4.9% of total staff). Over the five year period, the savings from those eight positions is estimated to be $2,607,928. There is additional overall savings with the other 18 positions not all being refilled at the same level as they were vacated. As time goes by, the District will keep a watchful eye on the savings to be sure of the continued overall savings. The bigger risk is that the projected cost of pension plans and health care will dissolve the savings over time.

Respectfully submitted,

Debbie Fry
Chief Business Officer