Metropolitan Education District
First Interim Financial Report
March 11, 2009

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

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, 2009. 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 a “snapshot” 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.

Update on the State Budget

California is in the midst of its most serious recession since the great depression. Business closures, employee layoffs, home foreclosures and a declining stock market have resulted in an unprecedented decline in state revenues. This has been followed by an extraordinary and growing deficit in the state budget. In July 2007, the structural deficit in the state budget was estimated at $6.1 billion. By January 2008, that deficit had grown to $14.5 billion. In May 2008, the deficit was $24.3 billion, and by January 2009 the structural deficit had risen to $42 billion.

On February 20, 2009, Governor Schwarzenegger approved a revised budget that was designed to close the $42 billion projected state budget deficit over the next 17 months. The budget makes major revisions to the current 2008-09 budget, and puts into place the budget framework for 2009-10. The overall budget solution includes $15 billion in cuts, $14.4 billion in temporary revenues and $11 billion in borrowing.

2008-09 Mid-Year Budget Package

K-Adult Proposition 98 Funding:
The budget package reduces current year Proposition 98 funding by more than $6 billion through a mix of program reductions, deferrals and re-designation of funds. The mid-year program reductions total $1.9 billion. This includes an elimination of the 0.68% COLA for 2008-09, with the balance of the cuts allocated equally to district's revenue limit and specified categorical programs. The reduction to the specified categorical programs is applied as a 15.38% cut to current year funding.

Categorical Program Flexibility:
Categorical programs are divided into three tiers for purposes of protecting some and providing flexibility to others.

- **Tier 1:** No funding reduction, no program flexibility, no statutory requirements are waived (with the exception of K-3 CSR penalty provisions).
- **Tier 2:** Funding reduction of 15.38% from current funding levels, no flexibility and programs are to be operated according to the current code requirements.
- **Tier 3:** Funding reduction of 15.38% from current funding levels, with maximum flexibility to move funding to any educational purpose.

All major MetroED funding sources (Adult Education, ROCP and Deferred Maintenance) are included in the Tier 3 flexibility.

Funding from federal sources is not affected by either the reductions or the flexibility provisions.

Other Flexibility Provisions:
- LEAs may access most 6/30/08 general fund categorical balances to be used for any educational purpose. This does not apply to Adult Education.
- Eliminates the .5% statutory match for deferred maintenance for current year through 2012-13.
- For Tier 3, Education Code requirements, including the requirement to record and report attendance, are suspended until 6/30/13, but are then reinstated.

Apportionment Deferrals:
- Defers February 2009 apportionments to July 2009
- Defers July & August 2009 apportionments to October 2009

2009-10 Budget Package:
- Increases the deficit by 4.46%, bringing the total on-going cut to 19.84%
- Continues the flexibility provisions

State Budget Impacts on MetroED

Details of the impacts to the MetroED budget, both for the current and two subsequent years, are reflected in the Second Interim Report, which is presented at this Board meeting. Following is a summary and discussion of those impacts:

	2008-2009	2009-2010	2010-2011
Cuts to General Fund Revenues	$2,290,045	$3,198,529	$3,065,373
Cuts to Adult Ed Fund Revenues	$1,433,268	$1,849,438	$1,793,073
Cuts to Def. Maint. Revenues	$ 27,216	$ 33,894	$ 33,894
Totals	$3,750,529	$5,081,861	$4,892,340

For 2008-09:
There are adequate reserves in both the General and Adult Education Funds to cover the mid-year cuts. Some of these reserves were generated from a series of position consolidations, department reorganizations, program reductions and some layoffs, effective 2008-09. Additionally during 2007-08, a number of expenditure budget accounts were “zeroed out,” with the funds swept into a “Reserve for State Budget Deficits.”

For 2009-10:
Funding for this and the next three years will be based on a fixed block grant that is about 20% less than current funding levels. This means that funds will be received regardless of whether or not average daily attendance is generated. The solution for a 20% cut in on-going revenues is a corresponding cut in on-going expenses. Reserves can be helpful to fill some of the gaps. However, on-going structural deficits are not fiscally responsible and will ultimately precipitate a fiscal crisis for the organization. Moreover, the County Office of Education is responsible for seeing that districts maintain their fiscal health, and has the responsibility to issue either a “qualified” or “negative” certification for any budget or interim report. The flexibility portion of the budget provides some capacity to adjust programs. Consequently, staff will be proposing a series of adjustments for the next two years to eliminate the structural deficit. Included in the proposals:

- Conversion of the CCOC Evening Program to fee-based
- Elimination of summer school programs
- Reduction of two of four hourly programs at San Jose Job Corps
- Elimination of all cosmetology programs
- 20% reduction of Satellite ROP funding to participating districts
- Closure of five CCOC Day School programs
- Other Targeted layoffs
- 4% salary reduction for all employees

Flexibility:
There is concern by some administrators that their sponsoring organizations will take advantage of the flexibility option and redirect ROCP and/or Adult Education funds for other educational purposes. We have heard that may be the case for some County-operated ROPs, and some districts may attempt to close their Adult Education programs. On the plus side, we have received feedback from a number of program administrators that their sponsoring agencies have already indicated their intent to

continue their programs as is, albeit in a somewhat downsized mode. To redirect funds, school districts must hold a public hearing.

Flexibility authority for Joint Powers Authorities (JPAs) rests with the JPA Governing Board. We have received guidance from both the Department of Education and CAROCP's legislative advocate (School Innovations and Advocacy) that JPA Boards should hold a public hearing and invoke the flexibility provision of the budget act. This is not necessarily for the purpose of moving dollars to some other educational purpose, but to invoke the waiver of Education Code. CDE has agreed to provide a template resolution, which staff will bring to the Governing Board at a future meeting.

Deferred Maintenance and Extreme Hardship:
Deferred Maintenance (DM) will continue to be funded by the state, but after the cuts noted above. Flexibility allows the district to not fund its matching deposit to the DM Fund. However, given the on-going maintenance needs of the aging CCOC facilities, staff is recommending that the district continue to fund its full share, which is included in the Second Interim Report.

In May 2008, the Office of Public School Instruction (OPSC) approved a MetroED application for an $801,835 DM Extreme Hardship project to replace the existing CCOC sanitary sewer system. However, funding for the project was delayed as the State Allocation Board waited for adoption of a state budget. Approved but unfunded DM Extreme Hardship projects are expected to be approved by the State Allocation Board for funding in March. We have confirmed that, even if the state's DM contribution for the current year is reduced, the state will continue to fund the full amount of the project, less the district's required contribution to the DM fund.

Apportionment Deferrals:
The State of California has a serious problem with its cash flow. To help solve the problem, apportionments for school districts are being "deferred." The February 2009 apportionment is deferred to July 2009. The June 2009 apportionment is deferred to July 2009, and the July/August apportionments are deferred to October 2009. MetroED has taken steps to provide 10% reserves in both its General and Adult Education Funds, which would meet the district's cash flow needs under normal circumstances. However, the extent of these deferrals are severe, and the district will need to use its Capital Outlay Proposition 1D match reserves to help cover the cash shortfalls.

Political Issues:
In a meeting with a Department of Finance representative, representatives of the California Association of Regional Occupational Centers/Programs (CAROCP) were told that inclusion of ROCP and Adult Education in the Tier 3 maximum flexibility was the result of a "deal" between the "big five" in their negotiations with the Governor. As such, it's not likely that any effort to remove these two programs from Tier 3 will be successful.

In meetings with some state legislators, CAROCP representatives were told that the legislators knew nothing of the details of the "deal." Many expressed their dissatisfaction that these two programs, because they are ADA-based, were not exempted from both the cuts and the flexibility provisions. Senator Lonnie Hancock, author of AB 2448 (the ROCP reform legislation), has agreed to amend SB 640 to move ROCP and Adult

Education from Tier 3 to Tier 2, with the programs allowed to take the "cuts" in ADA Caps. CAROCP lobbyists are also talking with CDE and the Department of Finance to possibly obtain the same result via administration-sponsored budget cleanup legislation.

Federal Economic Stimulus Funds:
The recently passed federal economic stimulus package will provide funds to restore cuts that have been made to education funding. We do not yet know whether ROCP and Adult Education will receive any of these funds. However, if we do, our caution is that this money is one-time only, and the state cut to our revenues is permanent. We are still obligated to reduce our structural deficit.

Unknown factors:
There are a considerable number of unknown factors that can impact the rollout of this new budget:

- The state economy continues to worsen, state revenues continue to decline. There is the possibility of additional cuts at the Governor's "May Revise" (which has now been moved to June).
- Cash flow for the state continues to be a problem, which means the possibility of additional deferrals.
- The extent to which the federal economic stimulus package provides assistance to California education remains unknown.
- ROCP funding provides 80%-85% of the required state Maintenance of Effort for federal Perkins funding. The state is applying for a federal waiver. If it is not approved, the state may have to reconsider both the cuts and the flexibility.
- Legislative attempts to move ROCP and Adult Education funding out of Tier 3.
- Other legislative impacts from the "Spring Cleanup" legislation needed to fully implement the "budget deal."

Impact on Programs/Students:
A funding cut of the magnitude of 20% means that there will be program reductions, and that will impact students. It is the intent and goal of the MetroED administration to minimize those impacts.

Reserves for Cash Flow

Unlike regular K-12 education, ROC/P and Adult Education programs do not receive state advance apportionment funding at the beginning of the fiscal year. Funds are apportioned ONLY after the state budget is signed into law, resulting in the district having to rely on temporary reserves to cover vendor payments and employee payrolls. During 2004-05, the Governing Board established policy to set up an overall 10% reserve, composed of a 4% General Reserve and a 6% Reserve for Economic Uncertainty, to provide sufficient cash for vendor payments and employee wages for a 60-day period. The newly enacted state budget makes a number of deferrals of school district cash apportionments, as noted above. We have developed detailed cash flow projections which indicate that these 10% reserves are inadequate to cover our cash needs for the current year. Consequently, the district will need to rely on the use of temporary borrowing from the District's Capital Outlay Funds in order to maintain its normal operations during this period.

Reserves for PERS Recapture 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 districts' revenue limit apportionment. However, this one-time reduction has become an on-going part of the revenue 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 has been confusing as to whether the PERS recapture applies to ROC/Ps operating as Joint Powers Authorities (JPAs). In 2000, SB 1667 was enacted that intended to include JPAs in the PERS recapture calculations. However, there was an erroneous cross reference in the legislation that kept it from being implemented. In 2003-04, the Department of Finance (DOF) attempted to unilaterally impose the PERS recapture on JPAs, without correcting the Education Code. The DOF attempt was defeated when education advocates threatened litigation. In 2004-05, legislation that would have corrected the erroneous reference, and provide a clear exemption for ROCP JPAs, was vetoed by the Governor, and the matter was referred to the California Department of Education (CDE) for interpretation. Currently, both the CDE and DOF believe that the PERS offset applies to ROCP JPAs. However, they have not imposed the recapture because of the incorrect Ed Code reference. The matter continues to be unresolved.

The MetroED Governing Board has recognized the potential financial liability to the District, and has directed that reserves be established for both the General and Adult Education funds. The General Fund PERS reserve is held in the District Fund 170 "Special Reserve." The Adult Education Fund reserve is designated as part of the fund balance for the Adult Education Fund 110. The District decided to cap these reserves for both funds as of June 30, 2007.

Proposition 1D CCOC Projects

MetroED has received both project and funding approval for 15 Proposition 1D grant applications for modernization of facilities and reconfiguration of programs at CCOC. The Prop 1D grants total $9,835,605. This must be matched dollar-for-dollar by the district. At the time of grant approvals, the district had insufficient match dollars, and requested $4.7 million in Proposition 1D loans for the match, which have been approved. Repayment of the loans is to be over a 10-year period, which would have exceeded $500,000 per year from the general fund.

It has been the plan of the administration that by accumulating one-time excess property taxes, the district will be able to meet its match without having to borrow from the state. To date, we have covered $3 million of the loan amounts, with only $1.6 million remaining. Because of the volatility of excess property taxes, we are advised by the Department of Education not to budget these until they are received, and to make no on-going commitments based on these dollars as a revenue stream. The excess property taxes are not recorded by the district until received.

Because of the state cash flow crisis, Prop 1D funds for school facilities have been frozen, causing some construction projects statewide to be suspended. We understand that distribution of these funds will be reinstated this month. The delay has not impacted MetroED's projects since we do not yet have any construction projects in place.

Employee Salaries and Benefits

The 2008-09 budget, and two projected years include step, column and longevity salary and statutory benefit increases for district employees, plus increases in the district's contribution to employee health and welfare benefits. The projections also include a projected 4% salary reduction in 2009-10 in order to help the district absorb the 20% reduction in revenues starting that year. This proposal was sun-shined with all the union bargaining teams on Wednesday, March 4, 2009, and will be the subject of collective bargaining in the near future.

Second Interim Budget Adjustments

Budget transfers and adjustments for the current year are approved by the Governing Board on a monthly basis. Consequently, there are few adjustments presented in the Second Interim Report that have not already been approved.

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. Comparative data is provided for the following five year period:

- 2006-07 Actuals
- 2007-08 Actuals
- 2008-09 Budget, 2nd Interim Report
- 2009-10 Projected
- 2010-11 Projected

Budget Presentation

Presentation of the First 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 and Campbell. Required state forms are provided in the sections identified in the Table of Contents.

Fund 010: General Fund (CCOC/P)

Fund 010 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. ROC/P funding is considered categorical by the state and is not guaranteed by

Fund 010 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 required 5% Reserve for Economic Uncertainty and will end the year with a positive cash balance. The projections include a 6% Reserve for Economic Uncertainty and 4% General Reserve, as required by Governing Board policy.

Fund 010 Budget Assumptions:

	2008-09	2009-10	2010-11
• Revenue Limit COLA*:	-0.55%	-0.63%	0.70%
• Revenue Limit Deficits	-15.85%	-4.46%	-0.50%
• Total ROC/P Revenue Limit	$2,939.35	$2,790.56	$2,796.05
• ADA Cap Growth %:	0.00%	0.00%	0.00%
• ADA Cap Growth	0.00	0.00	0.00
• Total Projected ADA Cap	4,155.57	4,155.57	4,155.57
• Reserve-Economic Uncertainty	6.00%	6.00%	6.00%
• General Reserve-Cash Flow	4.00%	4.00%	4.00%
• Employer-paid benefits increase	5.00%	5.00%	5.00%
• Employer-paid benefits max	$11,178	$11,737	$12,324

- No increases in salary other than step, column and longevity advancement.
- A 4% salary reduction is included in the 2009-10 proposed expenditure budget
- COLA increases, if necessary, are applied to appropriate expenditures for 2009-10 and 2010-11 Fiscal Years
- General expenditures for Superintendent and Central Office support have been directly charged to the General (ROC/P) and Adult Education Funds on a 65%-35% basis.

Fund 010 Revenues: There is a negative .55% adjustment to the ROCP revenue limit plus the statewide mid-year budget reduction of additional 15.38%. This is due to a.55% decline in 11th and 12th grade enrollments statewide, which is used to determine ADA growth for ROCPs. However, mechanisms in current education code result in any negative growth being applied to ROCP revenue limits, not to ADA caps.

Fund 010 Expenditures: Major changes of the budget reflect the differences of drastic decline in revenue and the reductions in expenditures to balance the budget including a proposed 4% salary reduction, program reduction and position reductions. Adjustments are effected in various object categories to reflect the revenue adjustment in Fund 010. See *Monthly Budget Adjustment 2nd Interim Report* for detail of changes.

Fund 010 Other Financing Sources/Uses: No changes.

Fund 010 Fund Balance: See *Monthly Budget Adjustments-2nd Interim Report* for detail of changes.

<u>Fund 010 Multi-Year Projections</u>: A major change in the multi-year projections from the adopted budget is the deficit of revenue limit rate for 2008-09 and 2009-10, and a small increase in 2010-11 fiscal years. This is due to the state's budget crisis and the impact on funding for categorical programs. Additionally, ROCP cap growth is based on 11th and 12th grade enrollment statewide. Revenue reductions and proposed expenditure reductions are included in this budget. The following chart summarizes the high points of operations for the 2nd Interim Budget and two projected years:

GENERAL FUND - OPERATIONS	**2008-2009**	**2009-2010**	**2010-2011**
Total Revenues	$ 14,170,374	$ 13,582,478	$ 13,654,134
Total Expenditures	$ 14,980,601	$ 13,353,702	$ 13,295,686
Net Revenues/Expenses	($ 810,227)	$ 228,776	$ 358,448
Other Sources (Uses)	($ 303,794)	($ 286,840)	($ 286,840)
Change to Fund Balance	**($ 1,114,021)**	**($ 58,064)**	**$ 71,608**

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

GENERAL FUND – FUND BALANCE	**2008-2009**	**2009-2010**	**2010-2011**
Reserved & Designated:			
Revolving Fund, Prepaid	$ 20,000	$ 20,000	$ 20,000
General Reserve (4%)	$ 611,796	$ 546,041	$ 543,721
Economic Uncertainty (6%)	$ 917,693	$ 819,062	$ 815,581
Contingency for State Deficits	$ 404,905	$ 511,227	$ 588,635
Other Designations	$ 0	$ 0	$ 0
Legally Restricted Balances	$ 0	$ 0	$ 0
Total Reserves	**$ 1,954,394**	**$ 1,896,330**	**$ 1,967,937**
Undesignated Fund Balance	**$ 0**	**$ 0**	**$ 0**
Total Fund Balance	**$ 1,954,394**	**$ 1,896,330**	**$ 1,967,937**

There are no provisions for salary increases for COLA. A proposed 4% salary reduction and statutory benefit reductions are included beginning in the 2009-10 fiscal year. Materials, supplies and equipment budgets have been reduced in current year and the two years included in the multi-year projections. The projections anticipate reduced funding of the district's match for Deferred Maintenance by the same percentage of state reduction. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow.

Contingency Reserve for state deficits: The $1,000,000 reserve for state funding deficit has been decreased to $404,905 this fiscal year, $511,227 for 2009-10 and $588,635 for 2010-11.

Fund 110: Adult Education

Fund 110 Purpose: The Adult Education Fund is used to account separately for federal, state and local revenues for Adult Education programs. MetroED administers the Adult Education programs for San Jose Unified School District and Campbell Union High School District under a Master Business Relationship Agreement.

Fund 110 Certification: The administration is recommending a positive certification. This means that the Adult Education Fund 110 will meet its financial obligations for the budget and two subsequent fiscal years; will maintain a 6% Reserve for Economic Uncertainty and 4% General Reserve as required by Governing Board policy; and will end the year with a positive cash balance.

Fund 110 Budget Assumptions:

	2008-09	2009-10	2019-11
• Revenue Limit COLA	0.00%	0.00%	0.00%
• Revenue Limit Deficits	-15.38%	-4.46%	0.00%
• Total Adult Ed Revenue Limit	$2,238.45	$2,137.72	$2,153.72
• ADA Cap Growth %	2.50%	2.50%	2.50%
• ADA Growth-San Jose USD	58	N/A	N/A
• ADA Growth-Campbell UHSD	28	N/A	N/A
Total ADA Growth	86	N/A	N/A
• Total ADA Cap-San Jose USD	2,389	N/A	N/A
• Total ADA Cap-Campbell UHSD	1,174	N/A	N/A
Total ADA Cap (rounded)	3,563	N/A	N/A
• Reserve-Economic Uncertainty	6.0%	6.0%	6.0%
• General Reserve-Cash Flow	4.0%	4.0%	4.0%
• Employer-paid benefits increase	5.0%	5.0%	5.0%
• Employer-paid benefits max	$11,178	$11,737	$12,324

- No increases in salary other than step, column and longevity advancement
- A 4% salary reduction is included in the 2009-10 proposed expenditure budget
- General expenditures for Superintendent and Central Office support have been direct charged to the ROC/P and Adult Education on a 65%/35% basis

Fund 110 Revenues: This revenue budget reflects the latest mid-year budget reductions and federal revenue increases since the first interim report. Please refer to the Monthly Budget Adjustment Second Interim pages for details.

Fund 110 Expenditures: Proposed budget changes in current year on materials, supplies and other services plus proposed salary and FTE reductions are reflected in the multi-year projections. Please refer to the Monthly Budget Adjustment Second Interim pages for details.

Fund 110 Other Financing Sources/Uses: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 110 Fund Balance: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 110 Multi-Year Projections: Deficit Revenue Limit adjustments for current year and two future years 2009-10 and 2010-11, have been implemented. This is due to the state's mid-year budget reduction and its funding impact for categorical programs. The following chart summarizes the main points of operation for the 2nd Interim Budget and two projected years:

ADULT ED FUND - OPERATIONS	**2008-2009**	**2009-2010**	**2010-2011**
Total Revenues:	**$ 10,662,321**	**$ 9,977,568**	**$ 10,076,573**
Total Expenditures	$ 11,710,599	$ 10,306,498	$ 10,511,221
Net Revenues/Expenses	($ 1,048,278)	($ 328,929)	($ 434,647)
Other Sources (Uses)	$ 137,335	$ 137,335	$ 137,335
Change to Fund Balance	**($ 910,943)**	**($ 191,594)**	**($ 297,312)**

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

ADULT ED FUND – FUND BALANCE	**2008-2009**	**2009-2010**	**2010-2011**
Reserved & Designated:			
General Reserve (4%)	$ 468,424	$ 412,260	$ 420,449
Economic Uncertainty (6%)	$ 702,636	$ 618,390	$ 630,673
Contingency for State Deficits	$ 424,727	$ 373,542	$ 55,758
PERS Recapture Liability Reserve	$ 302,000	$ 302,000	$ 302,000
Total Reserves	**$ 1,897,787**	**$ 1,706,192**	**$ 1,408,880**
Undesignated Fund Balance	**$ 0**	**$ 0**	**$ 0**
Total Fund Balance	**$ 1,897,787**	**$ 1,706,192**	**$ 1,408,880**

Decreases to the fund balance are due to mid-year budget reduction adjustments and worsened economic climate. There is a 4% salary reduction included in the 2009-10 expenditure budget along with the projected increases for step, column and longevity advancement, increases in the district contribution to employee health and welfare benefits. Reserves are maintained at 6% for Economic Uncertainty, 4% General Reserve for cash flow and the PERS Recapture Liability.

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 term of commitments to long term expenditures.

Fund 140: Deferred Maintenance

Fund 140 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 at the Central County Occupational Center (CCOC) under the 5-year Deferred Maintenance plan approved by the Office of Public School Construction (OPSC).

Fund 140 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.

Fund 140 Revenues: There are no changes in this category from the 1/31/09 Board-approved budget update. We anticipate the state reduction of 15.38% will be effective in this year’s allocation to be received in next year’s funding.

Fund 140 Expenditures: The following chart details the planned expenditures, by type of project, for the current and subsequent two fiscal years:

DEFERRED MAINTENANCE FUND	2008-2009	2009-2010	2010-2011
Revenues:			
State Funding	$ 160,000	$ 149,738	$ 143,060
District Contribution	$ 176,954	$ 160,000	$ 160,000
State Hardship Grant	$ 641,835	$ 0	$ 0
Interest Income	$ 15,000	$ 15,000	$ 15,000
Total Income	**$ 993,789**	**$ 324,738**	**$ 318,060**
Expenditures:			
Floor Covering	$ 0	$ 0	$ 0
Roofing Projects	$ 0	$ 100,000	$ 100,000
Painting Projects	$ 106,286	$ 110,000	$ 120,000
Paving Projects	$ 50,000	$ 50,000	$ 50,000
Lighting Projects	$ 0	$ 100,000	$ 100,000
Plumbing Projects	$ 801,835	$ 0	$ 0
Total Expenditures	**$ 958,121**	**$ 360,000**	**$ 370,000**
Net Change to Fund Balance	**$ 40,668**	**($ 35,262)**	**($ 51,940)**
Beginning Fund Balance	**$ 415,531**	**$ 456,199**	**$ 420,937**
Ending Fund Balance	**$ 456,199**	**$ 420,937**	**$ 368,997**

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

Fund 170 Purpose: The Special Reserve Fund for Other Than Capital Outlay Projects is used to account for the accumulation of General Fund money for purposes other than capital outlay. This is a new fund authorized by the Governing Board in October 2006 to reserve mandated cost reimbursements pending audit by the State Controllers' Office (SCO). Also included under this fund is a transfer from the General Fund for the PERS recapture liability.

Fund 170 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.

Fund 170 Revenues: There are no changes in this category since the 1/31/09 Board-approved budget update.

Fund 170 Expenditures: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 170 Other Financing Sources/Uses: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 210: Building Fund-Asset Management

Fund 210 Purpose: This is otherwise known as the CCOC 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.

Fund 210 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.

Fund 210 Revenues: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 210 Expenditures: Included in the 2nd Interim Report is detail of the proposed five year expenditure plan. The following chart shows detail, by class, for fiscal year 2007-08, the current budget year and two subsequent years:

ASSET MANAGEMENT FUND	2007-08 ACTUALS	2008-09 BUDGET	2009-10 PROJECTED	2010-11 PROJECTED
Revenues:				
Lease Revenue	$ 271,439	$ 270,000	$ 270,000	$ 270,000
Interest Income	$ 29,319	$ 35,000	$ 18,000	$ 19,000
Total Revenues	**$ 300,758**	**$ 305,000**	**$ 288,000**	**$ 289,000**

ASSET MANAGEMENT FUND	2007-08 ACTUALS	2008-09 BUDGET	2009-10 PROJECTED	2010-11 PROJECTED
Expenditures:				
Culinary Arts	$ 10,017	$ 0	$ 0	$ 0
Baking and Catering	$ 5,762	$ 0	$ 0	$ 0
Probation & Legal Careers	$ 0	$ 0	$ 0	$ 0
Veterinary Assistant	$ 12,106	$ 0	$ 0	$ 0
Fire Science	$ 94,589	$ 0	$ 0	$ 0
EMT	$ 36,638	$ 0	$ 0	$ 0
Bldg. 700 Renovations	$ 3,114	$ 0	$ 0	$ 0
Prop1 D equipment Grant	$ 0	$ 290,462	$ 290,462	$ 290,462
Equipment	$ 0	$ 100,000	$ 0	$ 0
Health & Safety	$ 0	$ 50,000	$ 50,000	$ 50,000
3% District Management Fee	$ 10,627	$ 10,495	$ 10,495	$ 10,495
Total Expenditures	**$ 172,853**	**$ 450,957**	**$ 350,957**	**$ 350,957**
Beginning Fund Balance	**$ 536,234**	**$ 664,139**	**$ 518,182**	**$ 455,225**
Ending Fund Balance	**$ 664,139**	**$ 518,182**	**$ 455,225**	**$ 393,268**

The $50,000 health and safety budget was established by the Governing Board based on a recommendation by the district's Budget Advisory Committee. The funds are to be used for the correction of health and safety problems that are identified throughout the year. 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

Fund 350 Purpose: With the passage of Proposition 1A in November 1998 and Proposition 55 in 2004, the State required a new fund to be established to account for modernization projects included in Fund 35. This fund separately accounts for apportionments and expenditures related to these construction and modernization projects approved by the governing board. Projects must receive approval from the State for participation in the "matching" program. State funds should be released when District submits the funding request after Division of State Architect's approval. This fund has been established in 2008-09 for the above described purposes.

Fund 350 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.

Fund 350 Revenues: Revenues received for this fund $269,204, has been transferred from General Fund which acted as the agent before Fund 350 was established.

Fund 350 Expenditures: Expenditure of $269,204 has been transferred from Fund 140 which also served as agent before Fund 350 was established.

Fund 350 Other Financing Sources/Uses: There are no financing sources or uses for this report.

Fund 400: Special Reserve Fund for Capital Outlay Projects

Fund 400 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. Monies in this fund are kept separate in their own Resource codes. Amounts are appropriated for expenditures as projects are planned and executed.

The facilities on the CCOC campus are showing considerable wear as they near 40 years in age, and are in need of modernization. There is also a need for upgraded Adult Education facilities at the Hillsdale campus in San Jose, and replacement of the administration building at the Campbell Adult Ed Del Mar site.

Fund 400 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.

Fund 400 Revenues: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 400 Expenditures: There are no changes in this category from the 1/31/09 Board-approved budget update.

Fund 400 Other Financing Sources/Uses: There are no changes in this category from the 1/31/09 Board-approved budget update.

The following chart summarizes the Capital Outlay Fund budget for 2008-09:

CAPITAL OUTLAY FUND	CCOC	ADULT ED SAN JOSE	ADULT ED CAMPBELL
Revenues:			
Interest Earnings	$ 320,000	$ 30,000	$ 5,000
Transfers In – Capital Outlay	$ 0	$ 0	$ 0
Total Sources Available	**$ 320,000**	**$ 30,000**	**$ 5,000**
Expenditures:			
Capital Outlay Projects & Transfer-outs	$ 658,614	$ 800,000	$ 575,000
Debt Service	$ 19,500	$ 0	$ 0
Total Expenditures	**$ 678,114**	**$ 800,000**	**$ 575,000**
Net Change to Fund Balance	**($ 358,114)**	**($ 770,000)**	**($ 570,000)**
Beginning Fund Balance	**$ 8,172,185**	**$ 1,737,576**	**$ 736,138**
Ending Fund Balance	**$ 7,814,071**	**$ 957,576**	**$ 166,138**

Fund 400 Ending Fund Balance: Included in the Fund 400 fund balance for CCOC is $697,865 which is held on deposit by a trustee for repayment of a $1 million QZAB. The balance of the funds in the CCOC Resource Code is designated for the match for Proposition 1D facility modernization grants.