

Metropolitan Education District
Adopted Budget, Fiscal Year 2012-13
June 27, 2012

Superintendent's Comments

The Metropolitan Education District (MetroED) was established as a Joint Powers Authority (JPA) in 1983 by six Santa Clara County school districts. The Education District constitutes a public entity separate and apart from the school districts that are parties to the JPA. MetroED is the largest career-oriented organization in Santa Clara County comprised of high school and adult career-technical, academic and community programs, which include the Central County Occupational Center (CCOC) and the Metropolitan Adult Education Program (MAEP). These programs annually provide more than 20,000 diverse students with the skills to help them be productive, income earning and taxpaying contributors to Silicon Valley.

Funding for Education in California

On May 14, Governor Brown released his May Revise budget update, which confirmed previously announced bad news that the state budget deficit had increased from \$9.2 billion at the January budget announcement, to \$15.7 billion at the May Revise.

In order to balance the budget, the Governor is proposing a combination of expenditure reductions, transfer of redevelopment agency assets to local school districts (thereby reducing the state Proposition 98 obligation to districts), delay of loan payments to special funds, and relies on increased tax revenues from the Governor's Schools & Local Public Safety Act, a temporary tax increase initiative on the November ballot.

The ballot initiative is expected to generate an estimated \$8.5 billion through the budget year. However, if the initiative is not approved by California voters, the Governor's plan includes a trigger of cuts that would go into effect on January 1, 2013. For schools and community colleges, the cuts would amount to \$5.5 billion, equivalent to the cost of three weeks of instruction. The trigger reductions include cancellation of a \$2.8 billion repayment of deferrals and a \$2.7 billion reduction in programmatic funding for schools. Schools will be provided flexibility to reduce the school year by a combined total of 15 days in 2012-13 and 2013-14.

MetroED bases its budget assumptions on the School Services of California "Dartboard" recommendations. School Services is recommending school districts develop their 2012-13 budgets based on the May Revise, even though there is a possibility that the temporary tax extensions might not be approved by voters in November.

School Funding Reform - Weighted Student Funding Formula

Included in the Governor's budget is a proposal to implement a weighted student funding formula (WSF) to replace California's complex, administratively costly and imbalanced school finance system. The WSF would be implemented over a period of years, and includes significant and permanent flexibility for schools to expend the majority of their educational funds, including most categorical funds, on any locally determined educational purpose. Funding for Adult Education and Regional Occupational Centers and Programs is included in the WSF.

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The Governor's May Revise addresses some of the concerns raised by the Education community with the following modifications to the proposed weighted student formula:

- Increase the base grant to the revenue limit level, an increase from \$4,920 to \$5,421, plus annual COLAs
- Repay the deficit factor
- Add grade span differentials to reflect the differing cost of educating students in grades K-3, 4-6, 7-8 and 9-12.
- Fund Add-On Programs. The current Home-To-School Transportation and Targeted Instructional Improvement Grant program funding formula allocations are to be continued as weighted student formula "add-on" programs. However, the funding will be flexible.
- Make Contingent on Accountability System Changes. Continued phase-in of the formula in 2013-14 will be contingent on legislation identifying additional indicators of district and school success such as professional development opportunities for teachers, college enrollment and employment rates for students, and provision of the necessary conditions for learning, which would be linked to incentive funding.

Even with these revisions to the Governor's proposal, it is the District's position that reforms of this magnitude should be considered in a thoughtful process through the legislative policy committees, and not included in the budget adoption process. Moreover, funding for Adult Education and regional programs such as ROCP should not be included in the WSF. Under the current proposal, ROCPs and Adult Education would cease to exist in their present form.

MetroED's Budget – Increasing Cost Pressures

The impact of the May Revise on 2012-13 state funding for MetroED is minimal. MetroED's Regional Occupational Center/Programs (ROCP) and Adult Education have, for the most part, absorbed the 20% funding cuts from the 2007-08 base year. However, increasing cost pressures without any corresponding revenue increases continue to put pressure on district resources. For example, MetroED continues to fund step, column and longevity increases for District employees, and the increased contributions for health and welfare benefits. There are also the inevitable inflation-driven cost increases for instructional materials and services needed to be purchased by the District to operate effective educational programs.

In order to offset these rising costs, MetroED has endeavored to cut operating costs as far away as possible from the core educational programs. Over the last 4-5 years, there have been reductions in administrative and classified support costs, and further reductions are included in this proposed budget, primarily in Adult Education (see below).

Adult Education – Severe Funding Reductions

By far the biggest impact on MetroED's 2012-13 budget was the \$3.5 million on-going annual reduction in Adult Education funding by the San Jose Unified School District (SJUSD), starting in 2011-12. This amounted to two-thirds of the state funding provided for MetroED's Adult Education (MAEP) programs. In 2009, the legislature allowed districts to redirect ("flex") categorical funding for any educational purpose, in order to help off-set other reductions to districts' base funding.

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This decision by San Jose USD has resulted in the closure of two of three Adult Education Centers, termination of support for nearly all outreach programs and closure of all 50+ and Community Interest programs. MAEP has consolidated the remaining programs at the Hillsdale Avenue MC Adult Education Center, in order to serve about 2,300 students annually with “core” classes in English as Second Language (ESL), Adult Basic Education (ABE), GED, High School Diploma, and Career Technical Education (CTE).

MetroED agreed to support these classes with additional funding support from a nearly \$1 million Workforce Investment Act (WIA) grant and use of Adult Education reserves. However, use of reserves has been at unsustainable levels, and the District has recently been notified that the WIA grant for 2012-13 will be reduced by 43%, a reduction of \$427,420. This reduction reflects the loss of the Campbell Adult Education program in 2009-10. Further reductions to the WIA grant are expected in subsequent years due to the decrease in number of students served in the San Jose program. The projected reductions in the subsequent years have been included in the multi-year projections.

These reductions in resources has led the District to propose considerable reductions in expenditures, including elimination of support for the Adults with Disabilities program at Hope Services (the last remaining outreach program) and reduction in personnel and other operating costs, which are detailed in the proposed budget Executive Summary.

Support for Satellite ROP Programs

In accordance with Master Business Relationship Agreements with JPA participating districts, MetroED applied the state percentage cuts to funding for the Satellite ROP programs on the high school campuses. These cuts totaled \$280,312 in 2008-09 and \$440,336 in 2009-10. To offset these cuts, in 2008-09, MetroED agreed that the JPA six participating districts would keep nearly \$1.7 million of State Fiscal Stabilization Funds (SFSF) that would otherwise be passed through to MetroED. In 2009-10, for the first time, MetroED returned to participating districts \$1,096,504 of one-time Excess Property Tax funds, and in 2010-11, \$905,604 was returned, to provide additional support for the Satellite ROP classes. These were one-time distributions, and the future use of these funds is yet to be determined.

Since Excess Property Taxes are a volatile source of funding, the California Department of Education recommends Districts do not budget these funds until received. MetroED will budget these revenues when received.

Potential Withdrawal of JPA Member

Los Gatos-Saratoga Joint Union High School District (Los Gatos) has provided preliminary notice to MetroED of its intent to withdraw from the Joint Powers Agency effective July 1, 2013, for financial reasons. Actual notice of withdrawal must be provided by June 30, 2012, which provides one year’s notice to the JPA and its other members. As of the writing of these Superintendent comments, final notice has not been provided. For budgeting purposes, however, we have included the financial impacts of the withdrawal, starting in 2013-14, which amounts to a net loss of

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approximately \$200,000 per year in financial support for the Central County Occupational Center (CCOC).

In accordance with the withdrawal procedures in the MetroED Joint Powers Agreement, withdrawal by a participating district is not deemed dissolution of the programs operated by MetroED or a termination of the Joint Powers Agreement. Actual notice of withdrawal triggers a requirement that an independent appraisal be conducted on all District personal and real property. Costs of the appraisal must be borne by the withdrawing district. Once the value of the District assets, less liabilities has been determined, the withdrawing district's share is determined, which is proportionate to the original investment in the JPA. In the case of Los Gatos, that is 7.7%. However, the withdrawing district may not take possession of any of the personal or real property until the JPA is actually dissolved. Hence, other than the loss of financial support, the CCOC programs should not be otherwise impacted. Also, students from Los Gatos will not be able to participate at CCOC.

Indirect Costs (Overhead)

Because of its unique structure (compared to regular school districts) MetroED has direct-charged its overhead costs (Central Office and Superintendent's Office) to the General and Adult Education Funds.

Over the years, the District has used different methodologies to determine overhead allocations, some of which were quite complex and time consuming. To address this problem, the District developed a new cost allocation model that provides flexibility sufficient to absorb sudden and substantial changes to our funding streams, is simple to understand, easy to calculate, does not require substantial staff time to calculate and is reasonably fair to both the General and Adult Education Funds. The new model was approved by the Superintendent's cabinet, and is based on the proportion of funding received each year by the two primary programs. For 2011-12, that proportion was 79% to the General Fund and 21% to the Adult Education Fund.

The District will be re-evaluating its methodology for the 2012-13 fiscal year.

Deficit Spending and Contingency for State Deficits

The Proposed budget reflects a trend of deficit spending for both the General and Adult Education Funds. While deficit spending is not normally considered fiscally responsible, the District is holding reserves as *Contingency for State Deficits* in both funds to cover the deficits, as well as the continuing uncertainties of funding for education in California. District staff will continue to evaluate all budget categories to identify savings. In April 2012, the MetroED Governing Board approved a consulting agreement with School Services of California for a comprehensive organizational review of all District support services, including site-based support, and to provide recommendations to the District on areas where additional efficiencies and cost savings can be found. The results of this review are expected in December 2012.

Facilities Modernization, Maintenance & Program Reconfiguration

For the last 8+ years MetroED (a Joint Powers Authority ROCP) has worked to qualify for state funding support for facilities maintenance and modernization at its Central County Occupational Center (CCOC). The District was successful in changing Education Code so that CCOC qualified for Deferred Maintenance funding. The District

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was also successful in including JPA ROCPs in the last state education facilities bond (Proposition 1D) for purposes of facility modernization. As a result, the District has received nearly \$5.5 million in regular and extreme hardship deferred maintenance funding and \$10 million in Prop 1D grants for equipment and facility modernization and program reconfiguration at CCOC.

In addition to on-going maintenance projects, Deferred Maintenance Extreme Hardship grants have funded large infrastructure projects at CCOC, including new electrical transformers, new roofing, new HVAC and sewer line replacement.

The \$10 million in Proposition 1D grants, which are being matched by MetroED (\$20 million total), is paying for modernization of six of the seven buildings on the CCOC campus, including program upgrades and reconfigurations in virtually every business sector. CCOC buildings 300 (Building Arts Center), 200 will be completed as a new (Health Careers Center), 800 (Culinary Arts Center) and 700 (model courtroom) have been completed. Building 600 (Transportation Careers Center) will be complete in July, in time for start of the new school year. The final two projects; building 100 (Arts, Media and Entertainment Center) and building 700 (fire training tower), will be under construction during the 2012-13 school year.

With consolidation of the Adult Education programs on the Hillsdale Campus, four older and undersized portable classrooms were replaced with three new standard portables. Other portables that were scheduled for demolition have been renovated to accommodate additional Adult Ed classes. The south parking lot is being reconfigured and restriped to handle the increase in adult students. Additionally, all gas lines on the campus have been replaced.

Legislative Priorities: Funding & Accountability

MetroED has been a leader in the delivery of Career Technical Education (CTE), and works closely with our state legislative delegation on key issues and priorities related to ROCP, CTE and Adult Education programs.

As our state continues to experience unemployment rates exceeding 8%, job creation must be the top priority in California. MetroED believes that the K-12 education system must provide options, opportunities, and choices for our high school students and their parents, and strongly believes that Regional Occupational Centers/Programs (ROCPs) are the optimal system for coordinating, delivering, and implementing CTE for high school students in California.

Numerous studies show that CTE programs produce gains in academic achievement and earnings and represent a significant contribution to the education of American's youth and adults in preparation of a skilled workforce. CTE graduates are 10-15% more likely to be in the labor force, and earn 8-9% more than graduates of academic programs, according to a 2001 Russell Sage Foundation study.

MetroED also believes that Adult Education is a critical program that helps Californians improve their quality of life by offering learners a wide range of knowledge and skills necessary to participate effectively as citizens, workers, parents, family and community members.

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Based on these beliefs, the MetroED Governing Board has adopted legislative priorities for the 2012-13 legislative session. The highest priority is to protect and preserve funding for ROCPs and Adult Education. In this climate of categorical program flexibility, it is essential that the legislature support career-technical education and adult education and acknowledge that these programs are not only critical to the overall recovery of California's economy, they are vital to the future of many children. Therefore, we support legislative efforts to overhaul how CTE programs are funded and require a dedicated funding source for both CTE and Adult Education programs in the future to ensure these programs are available to our students and local community members. Additionally, MetroED supports a legislative change to provide ROCP Joint Power Agencies (JPAs) the authority to issue general obligation bonds in the same manner as school districts (as envisioned in the MetroED JPA agreement).

Conclusion

I believe that the programs at MetroED, both ROCP and Adult Education, are THE premier programs of their type in Northern California. Our district goals and objectives are designed to maximize student outcomes. This proposed budget as presented to the Governing Board represents the best possible plan for expenditures within the resources that are available in order to accomplish these goals.

I would like to thank all the staff and the Budget Advisory Committee, for their assistance in the development of this proposed 2012-13 budget. I would also like to thank the members of the Governing Board whose guidance provides us direction and support in the development of a fiscally and academically responsible budget.

I recommend this budget for approval by the Governing Board.

Professionally,

Paul Hay
Superintendent