

# Paul R. Hay

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**March 29, 2019**

**To:** Jim Canova, MetroED Board Member  
Alyssa Lynch, MetroED Superintendent

**CC:** Ron Lebs, MetroED CBO

**From:** Paul Hay, Retired MetroED Superintendent

**Subject:** MetroED Funding & Processes

You've asked for my thoughts, and recommendations, relating to MetroED's current and future funding, and the processes for resolving the issues related thereto.

As you know, I retired from MetroED in 2013 after 4 years as its CBO and 6 years as its Superintendent. Since then I've followed the District's progress with interest and have included my following observations and recommendations.

## **PURPOSE OF METROED**

It's helpful to be reminded as to the reasons MetroED was created.

The legislative intent for centers is to provide high-quality vocational, technical and occupational preparation programs through a broad curriculum. The Center concept was to provide opportunities for several schools in one central location to avoid duplication of courses and to avoid the necessity of each high school needing to purchase and maintain expensive equipment and facilities. The programs were to be flexible so they could be easily altered to meet new training needs as they arose within the community. In short, the center concept provides economies of size and expense.

In 1983, the six participating districts chose to create a separate Joint Powers Agency (JPA); a public entity separate and apart from the Participating Districts, with its own board, administrative staff, employees, collective bargaining agreements and nearly all the same authorities of the granting agencies. In doing so, the Participating Districts recognized that they relinquished their ability to specifically control each decision of the JPA, in exchange for the ability to cooperatively operate programs for students in all six districts.

## **PROGRAM OBSERVATIONS**

During the last 6 years, I've been impressed with the programming changes at SVCTE and the subsequent successes of its students. 12 low enrolled sections have been replaced with 12 high demand STEAM sections. There's been a successful program of rebranding and extensive community outreach. Corporate partnerships are up to 125, there are 60 industry certifications and multiple union apprenticeships. UC college credit has been approved for 75% (18 of 24) of SVCTE's programs. 4 programs have community college enrollments, plus an additional 8 Community College articulation agreements. There are now an astounding 450 internships available for students. The number of high school students being served has increased from 1078 to 1404, with an average student per section increase from 17 to 24. 44% of students are going on to college and 17% into internships. Clearly, MetroED/SVCTE has evolved beyond simple vocational training into a true pathway to college and careers for Participating District students.

These programming improvements were in addition to a near complete SVCTE campus modernization of facilities & equipment.

## **FINANCIAL CONCERNS**

The district has clearly suffered financially as the state implemented new funding models that over time have shortchanged CTE. There are also the usual cost increases to benefits, step/column, etc. Steps taken by MetroED to offset these funding cuts have included layoffs, position reductions and program closures that have directly impacted student options. Not counting Adult Ed positions, MetroED has reduced MetroED/SVCTE classified staffing by 21 FTE. More importantly, there's been a net reduction of five SVCTE teachers resulting from the net reduction of four programs.

I'd like to congratulate the parties for adoption of the equalization formula that started in 2016-17. This resolved a contentious issue between the participating districts that had plagued the parties for many years.

However, going forward, failure to fund MetroED puts the District's solvency and viability at risk.

## **DEVELOPING A MASTER AGREEMENT**

I understand the difficulty of navigating the various challenges and competing priorities of developing a new Master Agreement between MetroED and the six districts. During my tenure at MetroED, we held a workshop for the MetroED Board & district superintendents with MetroED's attorneys to review and clarify the processes, responsibilities and authorities of the parties. It helped reduce confusion about everybody's role.

*Side note. From my experience, the adversarial and contentious tone by some during funding negotiations, and the constant uncertainty about future solvency of the JPA, takes its toll on the morale of the MetroED and SVCTE staff. I lost employees because of the uncertainties and I understand Alyssa has well. For the most part (Milpitas was always the exception), it has felt that funding by the districts was provided reluctantly.*

*Because of this, I advocated for multi-year Master Agreements to relieve the pressure of the constant uncertainty.*

**Recommendations.**

- 1) MetroED hold a workshop with its attorneys, the Board and 6 district superintendents.
- 2) I also urge the Board consider having the attorneys make similar presentations to the six districts’ Boards.
- 3) When new Board members come on board, conduct the same review individually at the attorney’s office.
- 4) Adopt multi-year Master Agreements

**METROED COSTS**

I understand there has been an assertion that MetroED costs too much, and a request that the JPA “open” its books. In my opinion, MetroED has been transparent with its finances. It provides its Board and, through them the participating districts, with an annual budget, 1<sup>st</sup> & 2<sup>nd</sup> Interim Reports, Unaudited Actuals and an annual independent audit. These are also posted on the District’s web page for the public & participating districts. Budget adoption and the Master Business Agreements fully involve the participating districts through the Executive Council process & joint Board meetings.

**Recommendation.** In the interest of maximizing transparency, the MetroED CBO send to the six district CBOs hard copies of the following financial reports (AFTER Board certification/acceptance); Adopted Budget, 1<sup>st</sup> Interim Report, 2<sup>nd</sup> Interim Report, Unaudited Actuals and the annual independent audit.

During the last 6 years, MetroED has taken substantial steps to reduce costs in the face of declining revenues. Staffing has been reduced 24% (from 144 to 110), including 21 classified support staff and 5 teachers at SVCTE. In 2015 the state reorganized Adult Education into Consortiums under the Community College system. This was followed with AB 1809, which limited the cost of Adult Ed administration to 5% starting in 2018-19. This has resulted in an \$825,0000 hit to the General Fund.

**METROED FISCAL SOLVENCY**

At your request, I’ve reviewed the 2018-19 General Fund Second Interim Report and multi-year projections (MYP). The projections indicate that the JPA, without an increase to its funding, will become non-viable (insolvent) as an agency in 2021-22. This assumes no further closures of sections at SVCTE. See the following:

<b>2018-09 2<sup>nd</sup> Interim Multi-Year Projections: General Fund</b>					
<b><u>Fiscal Year</u></b>	<b><u>Beg Fund Bal</u></b>	<b><u>Change to</u></b>	<b><u>Ending</u></b>	<b><u>Encumbered</u></b>	<b><u>Unencumbered</u></b>
	<b><u>Fund Balance</u></b>	<b><u>Fund Balance</u></b>	<b><u>Fund Balance</u></b>	<b><u>for Liabilities</u></b>	<b><u>Fund Balance</u></b>
2018-19	\$ 5,917,829	<b>(\$ 1,683,172)</b>	\$ 4,234,657	(\$ 2,584,223)	\$ 1,650,434
2019-20	\$ 4,234,657	<b>(\$ 1,204,917)</b>	\$ 3,029,740	(\$ 1,698,295)	\$ 1,331,445
2020-21	\$ 3,029,740	<b>(\$ 1,423,838)</b>	\$ 1,605,901	(\$ 884,597)	\$ 721,304
2021-22	\$ 1,605,901	<b>(\$ 1,623,486)</b>	<b>(\$ 17,584)</b>	_____	_____
2022-23	(\$ 17,584)	<b>(\$ 1,793,816)</b>	<b>(\$ 1,811,400)</b>	_____	_____

Near term, options to maintain fiscal solvency are limited; increase revenues, cut sections at SVCTE or a combination of both.

Note, there may be alternative funding solutions for the JPA going forward, but their development is longer term in nature.

**Recommendations for the 2019-20 Budget**

- 1) Do not cut current level of programs at SVCTE. The current offerings provide a balanced program for participating district students. Add additional programs to meet student needs whenever possible.
- 2) I support moving the \$100,000 Deferred Maintenance transfer to Fund 21 for the foreseeable future. However, since Fund 21 is the primary source of match funding for Prop 51 capital improvement/equipment grants, it should not become a permanent source for deferred maintenance at the center.
- 3) The CTIEG grant is one-time funding and should not be used to balance an on-going operations deficit. To the extent possible, they should be used to further develop programs at SVCTE that directly benefit students.
- 4) Continue reasonable salary increases through the collective bargaining process. It is unreasonable to balance the budget on the backs of the classified/certificated staff.
- 5) Increase the per student funding to 55%, effective **2019-20**. This should generate approximately \$6,953 per student, up from the current \$6,017.

**Recommendations – Longer Term**

- 1) Economies of Scale. Consider developing centralized/regional support services for small Silicon Valley Districts. When the JPA was created, it administered nearly all Adult Education for So. Santa Clara County. These pay-as-you-go services can help support MetroED administrative overhead while providing economies to the supported districts.
- 2) Take another look at the feasibility of G. O. bonding or an Assessment District to attain direct funding from the community. The JPA allows this.
- 3) Continue to pursue legislation in Sacramento to develop on-going direct funding for CTE Centers (MetroED & So Cal) and/or on-going CTIEG type grants. On-going funding can be used to take financial pressure off the districts.
- 4) Take maximum advantage of the new Prop 51 grants facility upgrades & equipment for the development of new programs at SVCTE. This alleviates any possible demand on the participating districts for capital needs.

**If the participating districts value MetroED/SVCTE for their students, then I urge them to fully fund and support it.**

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