

Irvine Unified School District First Interim Report



Presented by John Fogarty

December 15, 2020

Financial Reporting Cycle



- ✓ State Budget Adoption July
- ✓ 2019-20 Unaudited Actuals September
- ✓ First Interim Report December
- Governor's 2021-22 Budget Proposal January
- Second Interim Report March
- 2021-22 Budget LCAP Study Session April
- IUSD 2021-22 Budget Adoption. June

First Interim Report



Interim Report Purpose:

- ❑ The First Interim Report represents the District's first official revision to the District's 2020-21 Adopted Budget
- ❑ The First Interim Report includes actual financial information through October 31, 2020 with revised projections for the remainder of the fiscal year
- ❑ School Districts are required to certify their financial condition twice during the fiscal year. This certification addresses the District's ability to meet its financial obligations for the current year and two subsequent years

Legislative Analysts Office

November 2020 Fiscal Outlook



- LAO nonpartisan fiscal advisor to the Legislature
- Based on consensus economic forecasts from major U.S. institutions and professional economists
- Annual Fiscal Five Year Outlook provides assessment of economy and considers current year and four subsequent years
 - Outlook covers 2020-21 through 2024-25
 - Provided to assist in development of 2021-22 State Budget
- In a departure from recent years and in recognition of the volatility surrounding economic projections due to the COVID - 19 pandemic, the LAO provided one “main” projection with several caveats

Legislative Analysts Office

November 2020 Fiscal Outlook



□ Observations of Main Outlook

- Covers 2020-21 through 2024-25
- Never before has there been this much uncertainty impacting forecasts
- State economy experienced a quicker rebound than anticipated
- Many 2020-21 budget assumptions too pessimistic - leading to one-time windfall
- Recovery has been uneven
 - Many low-income Californians remain out of work
 - Most high-income workers have been spared
 - Sectors such as leisure and hospitality remain severely depressed, while technology remains strong
 - Reaching full recovery will be slow
- LAO projecting multiple years of state operating deficit
- Revenues projected to grow at 1% annually while expenditures grow by 4.4%

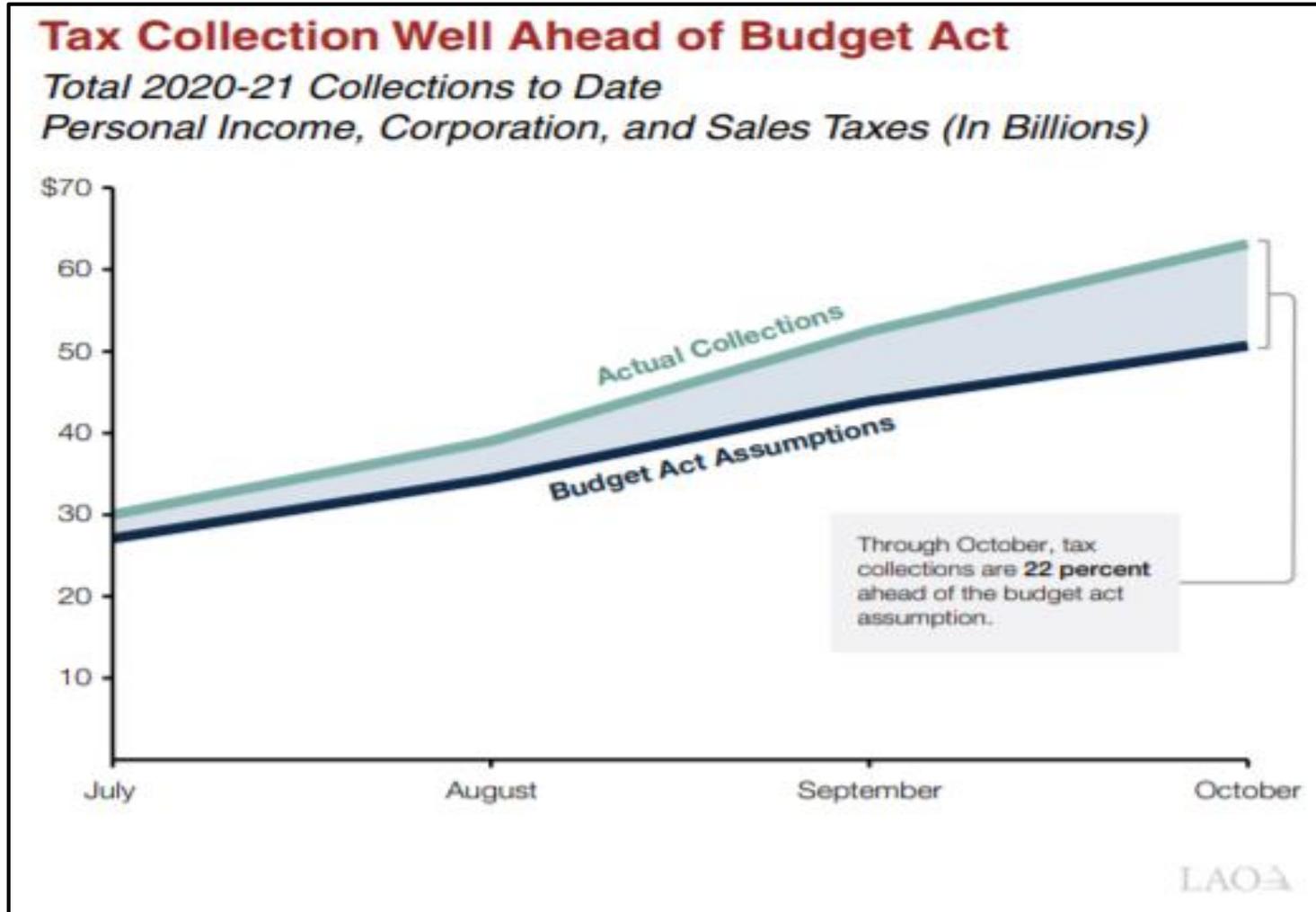
Legislative Analysts Office

November 2020 Fiscal Outlook



- Observations of Main Outlook
 - Unprecedented unknowns cloud economic outlook
 - Will COVID-19 cases worsen over fall and winter?
 - How soon will effective treatments or vaccines be widely available?
 - Can businesses continue to withstand diminished revenues in the face of rising debts?
 - Will the federal government take additional actions to support economy?
 - Could pandemic create a permanent shift toward remote work and, if so, will this shift change people's and businesses' decisions about locating in California?
 - These questions have led to divergent opinions and forecasts by economists

State Revenues Higher Than Expected



Source: LAO The 2021-22 Budget: California's Fiscal Outlook

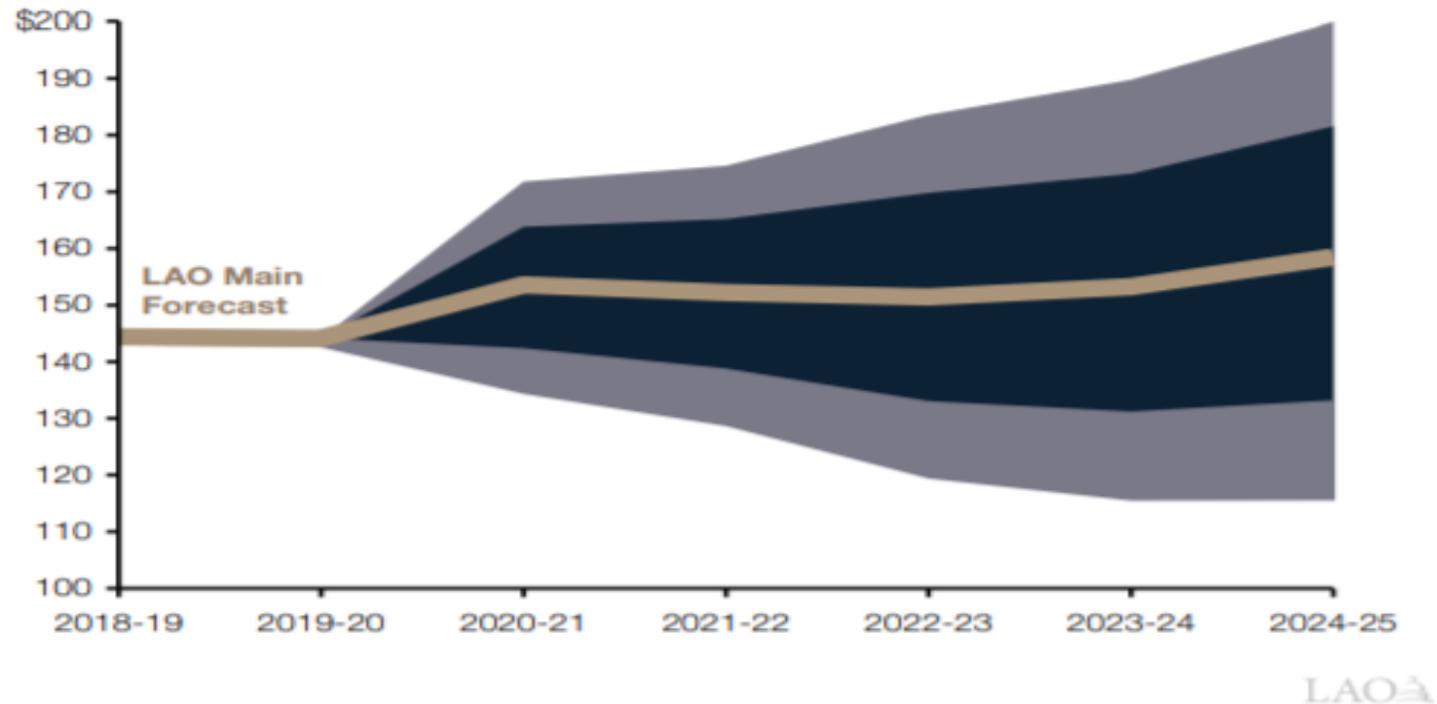
Estimating Uncertainty



Estimating Uncertainty in Our Main Outlook

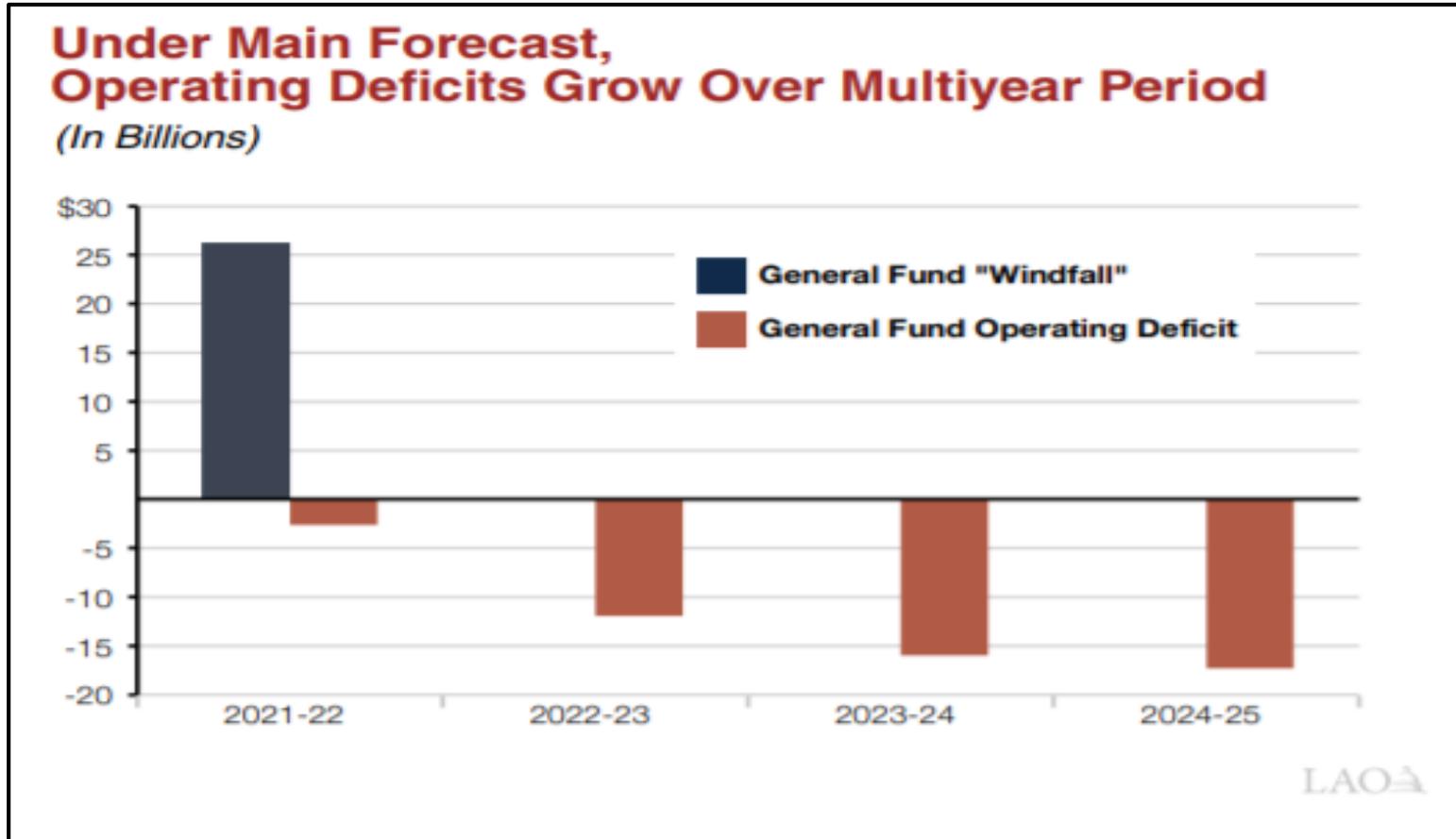
General Fund Revenue (In Billions)

The shaded regions on this graph show our estimates of how much revenues might differ from our main forecast. Our estimates suggest revenues are more likely than not to be in the **inner shaded area**. Revenues in the outer shaded area are less likely. Revenues beyond that are very unlikely.



Source: LAO The 2021-22 Budget: California's Fiscal Outlook

Long-Term Operating Deficits Grow Over Multi-Year Period



Source: LAO The 2021-22 Budget: California's Fiscal Outlook

Legislative Analysts Office

November 2020 Fiscal Outlook

Proposition 98

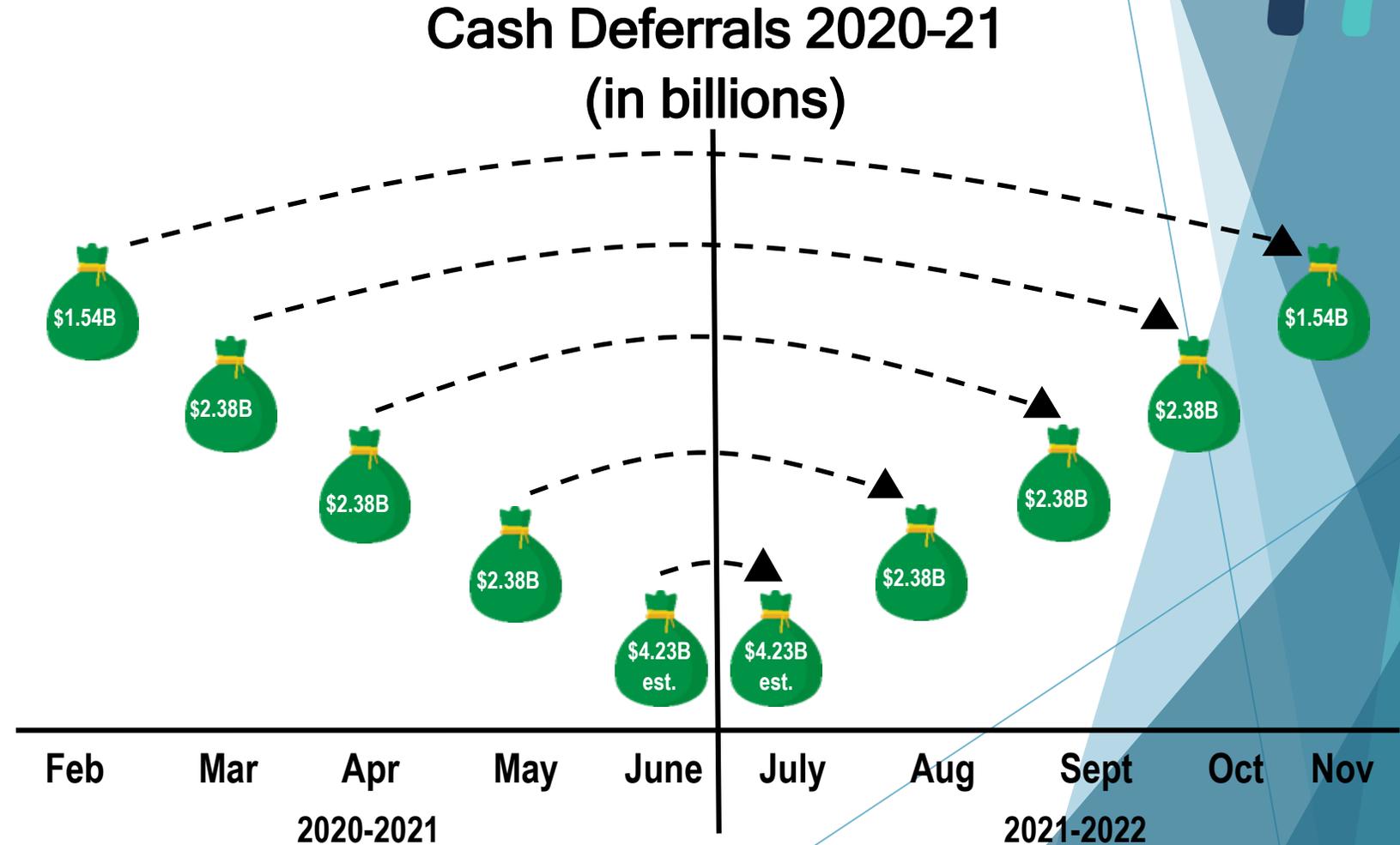


- ❑ **Main Outlook Scenario - Education Funding**
- ❑ Based on the stronger than anticipated revenues for 2020-21, the Proposition 98 guarantee is expected to increase by \$13.1 billion in the current year and by \$1.6 billion for the 2019-20 fiscal year
- ❑ Proposition 98 is expected to grow by an additional \$595 million in 2021-22
- ❑ In recognition of the cuts to Proposition 98 in 2020-21, the Final State Budget included language to augment Proposition 98 in the future through supplemental payments
- ❑ Assuming supplemental payments are maintained, Proposition 98 will yield approximately \$13.7 billion in one-time funds and \$4.2 billion in ongoing funds in 2021-22
- ❑ The LAO is also projecting a modest COLA of 1.14%
- ❑ Most of the one-time funding is anticipated to be used to “payback” the one-time deferrals included in the 2020-21 State Budget

Budget Solutions in Current Year

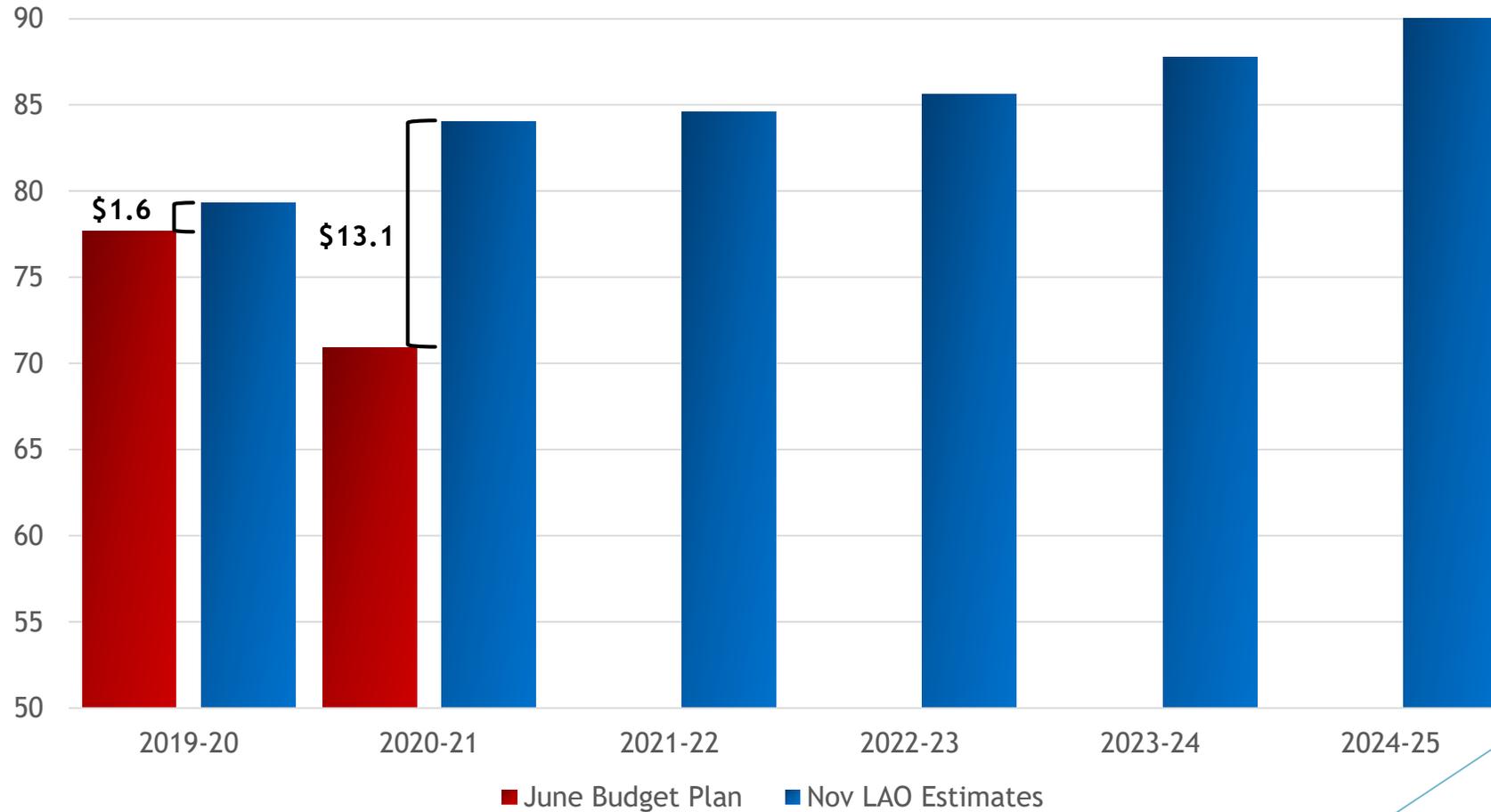


- ▶ In lieu of the ongoing cuts to the LCFF, funding deferrals increased from \$5.3 billion to \$12 billion
- ▶ Budget deferrals allow the State to record a budget cut in one year and move the expense to the next year - one-time solution



Prop 98 Funding

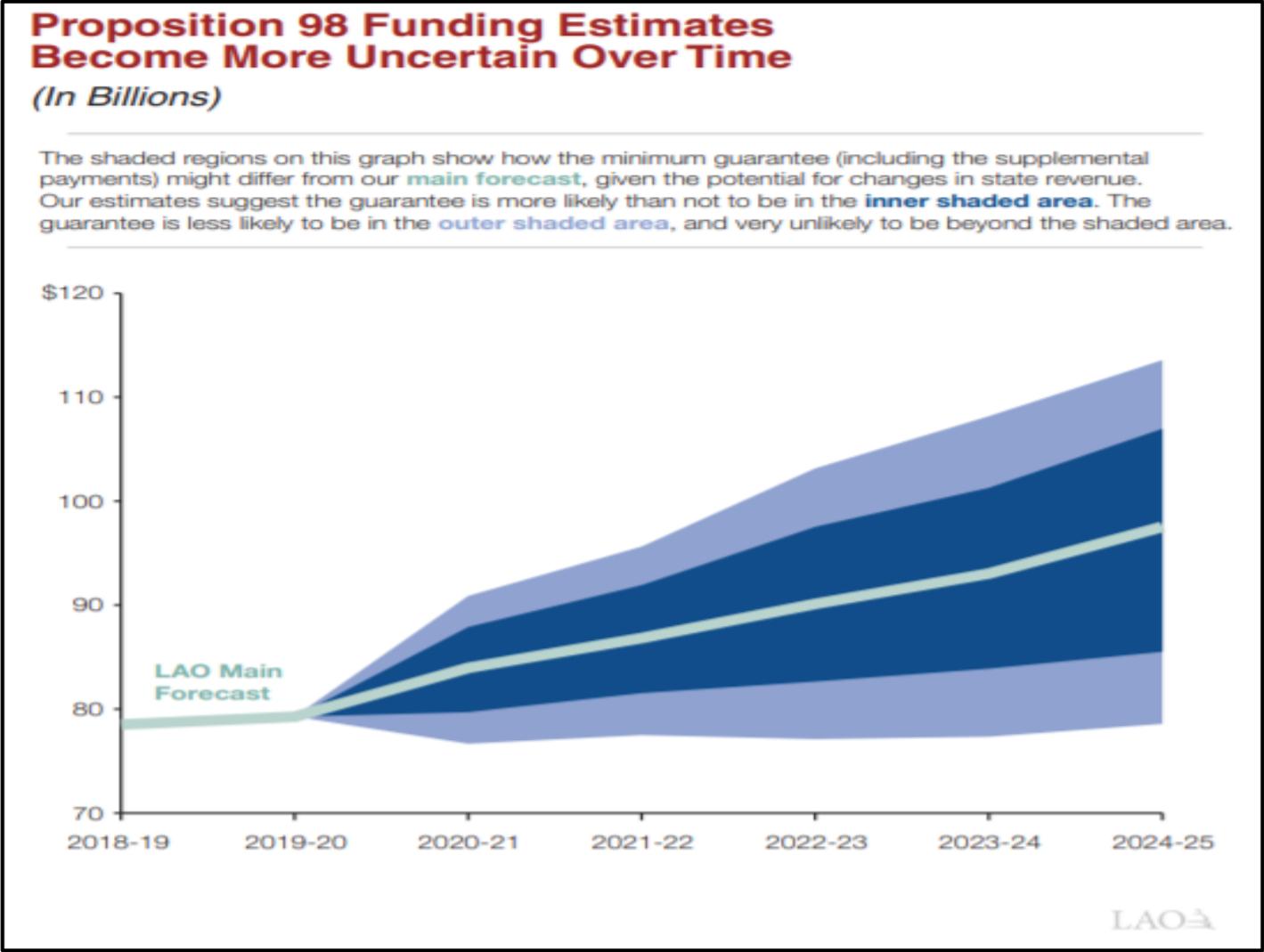
LAO Forecast (In Billions)



Source: LAO The 2021-22 Budget: California's Fiscal Outlook



Proposition 98 Funding Estimates



Source: LAO The 2021-22 Budget: The Fiscal Outlook for Schools and Community Colleges

Ongoing Challenges



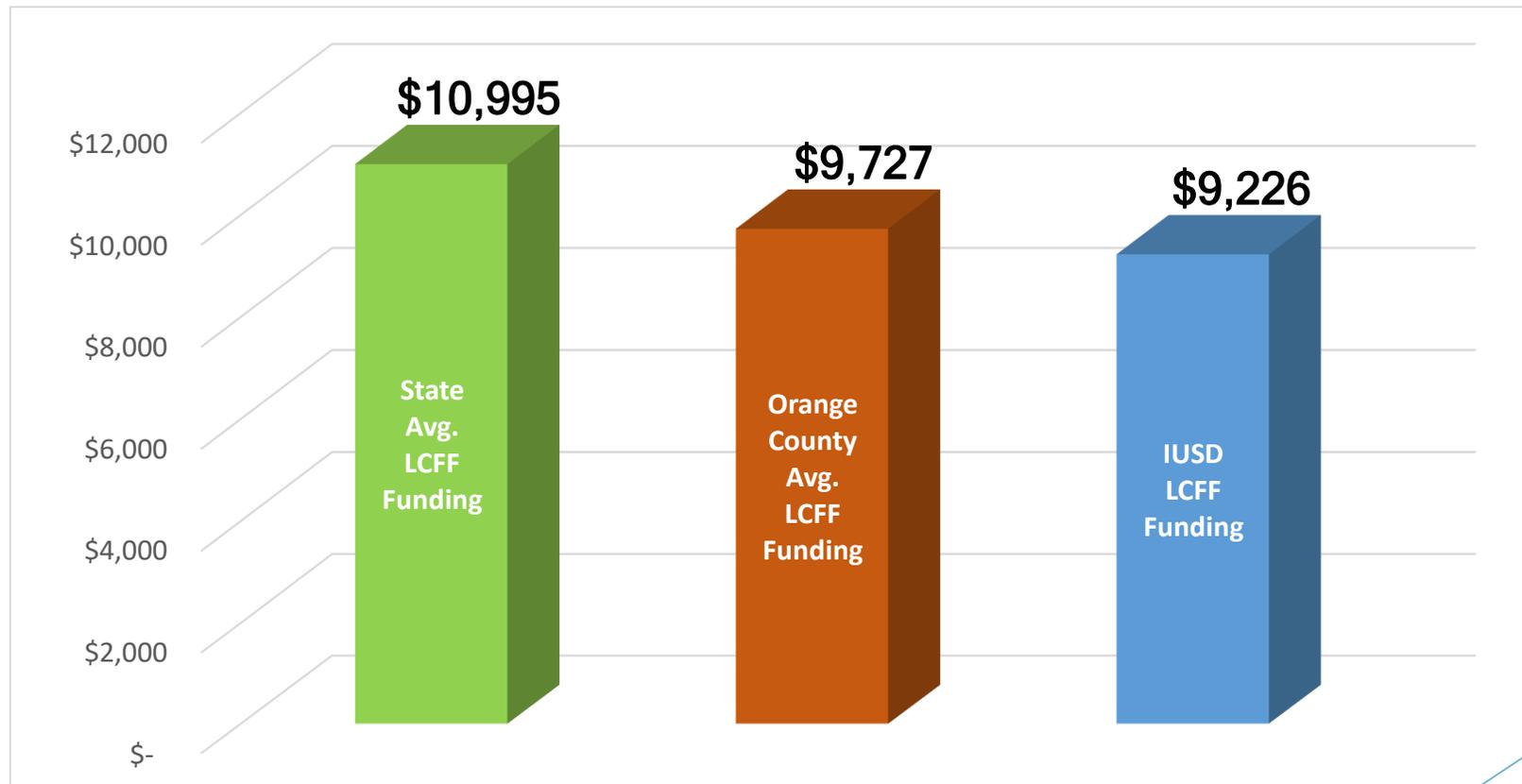
- ▶ LAO is projecting a 1.14% Cost-of-Living Adjustment (COLA) for 2021-22
 - ▶ Insufficient to cover ongoing cost increases for special education, step and column movement, healthcare, legal fees, utilities....etc.
 - ▶ Typically these costs range from 2%-3% annually
- ▶ The Local Control Funding Formula represents well over 90% of Unrestricted Revenue (for IUSD 94%), yet funding disproportionately benefits districts with high concentrations of disadvantaged students
- ▶ State revenues very volatile
 - ▶ Heavily dependent on high income earners driven largely by capital gains from the stock market

LCFF Long-Term Potential Impact to IUSD

The LCFF is weighted to favor districts with high populations of disadvantaged students, as such, IUSD receives substantially lower per pupil funding annually.



2019-20 LCFF Funding Comparison Unified School Districts



Note: IUSD funded \$1,769/ADA below statewide average for Unified School Districts statewide. Impact \$62.1million.....

2020-21 First Interim Assumptions



	2020-21 Projected	2021-22 Projected	2022-23 Projected
ADA	35,088	35,090	35,502
LCFF Funding per student	\$9,225	\$9,233	\$9,232
Property Tax Increases	3%	3%	3%
Salary Increases (Ongoing)	TBD	TBD	TBD
Salary Increases (One-time)*	TBD	TBD	TBD
Step & Column Increases	2%	2%	2%
Health Insurance Contributions	\$11,015	\$11,015	\$11,015
Utility Increases	4%	4%	4%
District Reserve Level	2%	2%	2%

2020-21 Budget Anomalies

- ▶ COVID-19 Pandemic has had a profound impact on two District programs
 - ▶ Nutrition Services
 - ▶ Self-sustaining and very efficient
 - ▶ Nutrition services ended the 2019-20 fiscal year with a reserve of approximately \$1.7 million down from 2018-19 of approximately \$2.3 million
 - ▶ Current year projections indicate Nutrition Services will need a General Fund contribution
 - ▶ Will be funded by federal stimulus funds
 - ▶ Early Childhood Learning Center (ECLC)
 - ▶ Largely supported by fee based program
 - ▶ Will require General Fund contribution



2020-21 Budget & Multiyear Projections

Unrestricted General Fund



Unrestricted	2020-21 Projected	2021-22 Projected	2022-23 Projected
Total Revenues	\$341,308,812	\$341,857,852	\$345,857,701
Total Expenditures	(\$282,815,924)	(\$276,372,955)	(\$287,488,999)
EXCESS (DEFICIENCY)	\$58,492,888	\$65,484,897	\$58,368,702
Other Sources/(Uses)	(\$68,576,729)	(\$65,396,462)	(\$71,018,221)
Net Increase/(Decrease)	(\$10,083,841)	\$88,435	(\$12,649,519)
Beginning Balance, July 1	\$53,455,196	\$43,371,355	\$43,459,790
Ending Balance, June 30	\$43,371,355	\$43,459,790	\$30,810,271

2020-21 Budget & Multiyear Projections

Components of Ending Fund Balance



Description	2020-21 Projected	2021-22 Projected	2022-23 Projected
Estimated Ending Fund Balance	\$43,371,355	\$43,459,790	\$30,810,271
<i>Components of Ending Fund Balance:</i>			
Revolving Cash/Stores	\$350,000	\$350,000	\$350,000
State Required Reserve	\$9,197,000	\$8,366,667	\$8,693,964
Health and Welfare Contribution	\$2,000,000	\$2,000,000	\$2,000,000
Contingency Reserve*	\$31,824,355	\$32,743,123	\$19,766,307

* Includes contingency reserve, 2019-20 unallocated funds, instructional materials reserves, suspension of instructional materials and workers compensation annual allocations....

2020-21 First Interim Report Certification

- ❑ **Positive** = A school district that, based on current projections, will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years
- ❑ **Qualified** = A school district that, based on current projections, **may** not meet its financial obligations for the current fiscal year or subsequent fiscal year
- ❑ **Negative** = A school district that, based on current projections, will be unable to meet its financial obligations for the current fiscal year or for subsequent two fiscal years
- ❑ Staff recommends a **Positive Certification** of the First Interim Report



Questions?

