



Irvine Unified School District

Second Interim Report

Presented by John Fogarty

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Second Interim Budget Report

- ▶ The Second Interim Report represents the District's second official revision to the Final Adopted Budget and includes actual financial data through January 31, 2024, with revised projections for the remainder of the fiscal year
- ▶ Each school district is required to certify its financial condition twice during the fiscal year. This certification addresses the District's ability to meet its financial obligations for the current and two subsequent fiscal years
- ▶ The release of the Governor's Annual State Budget in January provides the basis for the initial budget development for the upcoming year and is used to update the Multiyear Projections
- ▶ Budget assumptions are developed with guidance from: the Orange County Department of Education; California Department of Education; School Services of California; California Association of School Business Officials; and a number of other sources



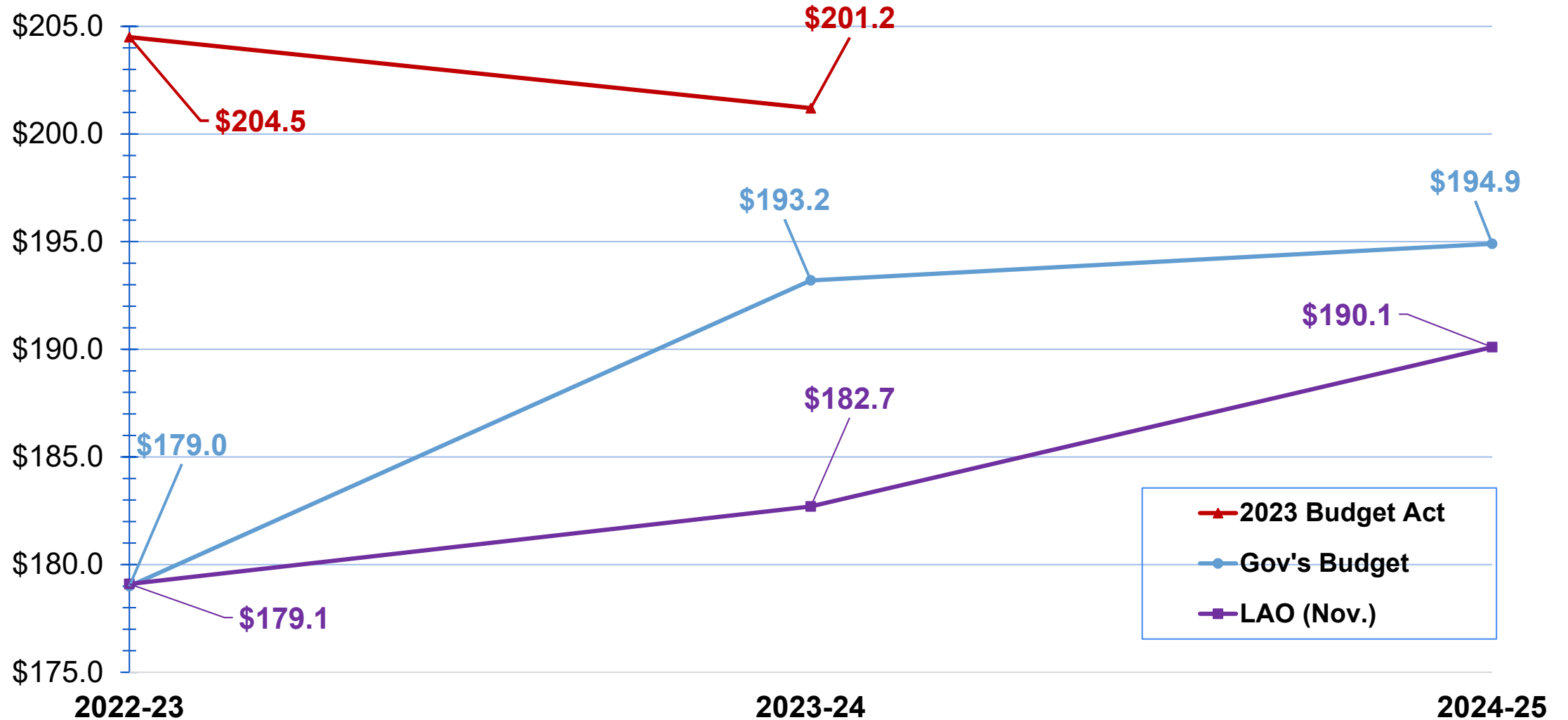
State Economy Budget Outlook For Education

- ▶ With the postponement of 2022 Personal Income Tax (PIT) and Corporate tax filings until November of 2023, the current year state budget was developed based on estimated revenues
- ▶ The Final 2023-24 State Budget includes an estimated \$42 billion in tax collections in November
- ▶ **Assumptions were off....way off:**
 - ▶ **Actual 2022 tax collections came in \$26 billion lower than projections**
- ▶ In addition, based on the reduced revenue collections in 2022, projected 2023 and 2024 tax revenues have now been reduced accordingly
- ▶ Because Proposition 98 is operating under Test 1, reduction in state revenue directly impacts funding for K-12 and Community Colleges
- ▶ Legislative Analyst's Office (LAO) much more conservative than the Governor



State General Fund (GF) Revenues

Includes only revenues that affect calculation of Prop 98 minimum guarantee
(Dollars in billions)





State Economy Budget Outlook For Education

- ▶ With the decline in revenues projected for the current and budget year, the Governor's 2024-25 January Budget proposal recognized and addressed a forecast budget deficit of \$38 billion
- ▶ Governor's proposal holds Proposition 98 harmless in the current year while recognizing the significant reduction in revenues and impact to education funding in 2022-23
- ▶ Governor's proposal includes a Proposition 98 "maneuver" to address 2022-23 Proposition 98 reductions without actually reducing funding in the current or budget year.
- ▶ To address the budget deficit the Governor is:
 - ▶ Utilizing state reserves as well as the Proposition 98 Rainy Day reserve
 - ▶ Funding reductions.....**While the Governor's proposal does contain programmatic cuts, there are no cuts for K-14**
 - ▶ Funding delays, deferrals, shifts and borrowing
 - ▶ The Governor's Proposal does little to address any structural issues....



Education Funding

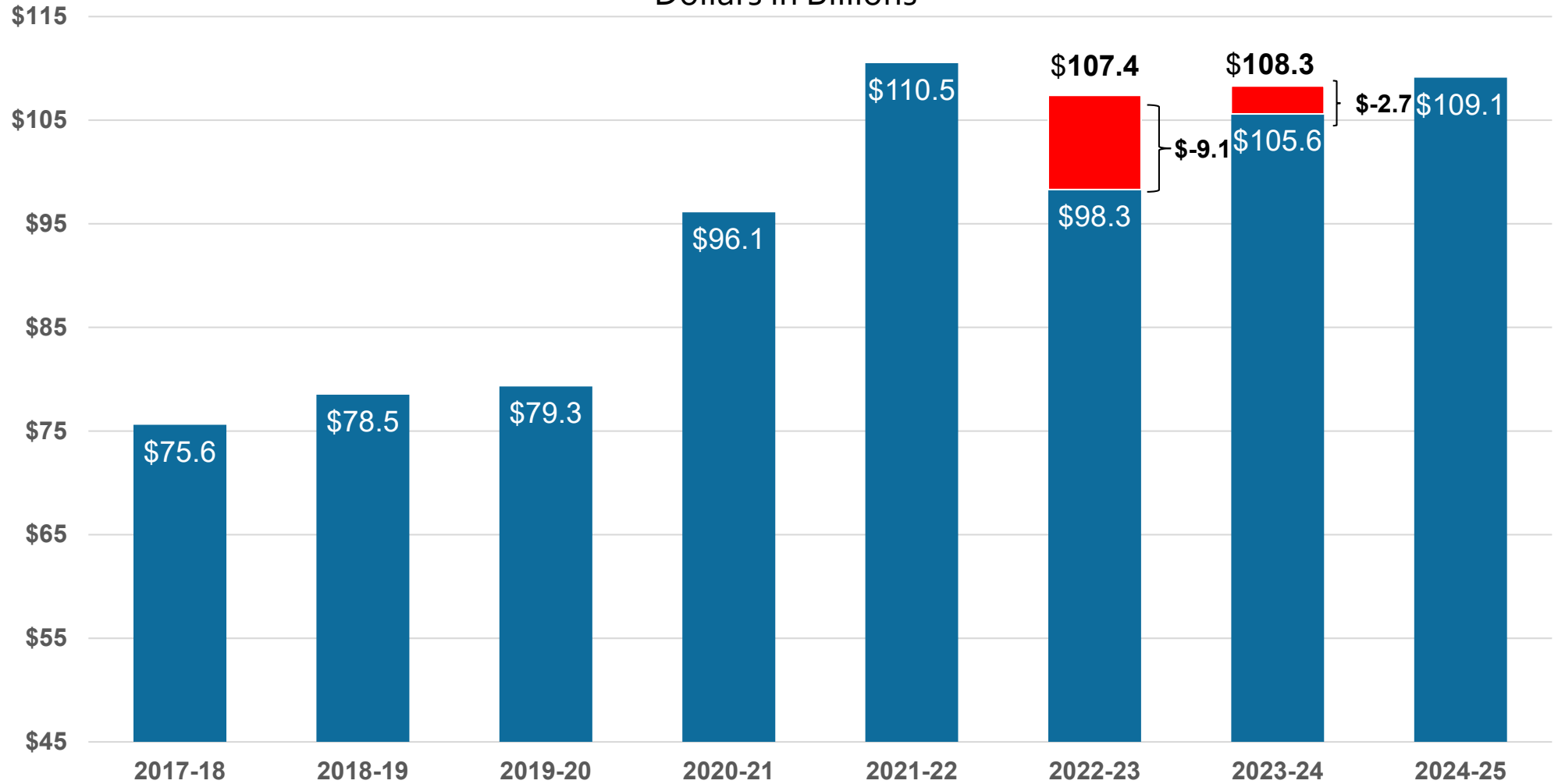
- ▶ Proposition 98 guarantee dictates funding for K-12 and Community Colleges
 - ▶ Receives protection from rest of State budget
 - ▶ Under Test 1 – directly impacted by state revenues, receive approximately 40% of State general fund revenues and property taxes
- ▶ Because revenues have been lowered for 2022-23 and 2023-24 Proposition 98 guarantee has declined proportionately
- ▶ Proposition 98 remains in a very good position relative to the overall state budget





Prop 98 Funding 2024-25 Governor's Budget

Dollars in Billions





State General Fund Revenues

- ▶ Unfortunately State revenue collections are not trending in line with Governor's projections
- ▶ The Department of Finance recently reported that tax collections through January 2024 were down approximately \$5.9 billion from what was included in the Governor's January Budget Proposal
- ▶ Potentially significant negative impact on Proposition 98

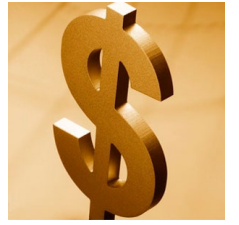
2023-24 State Tax Collections In Billions

	2023-24 Year-to-Date			
	Forecast	Actual	Difference	% Change
Personal Income Tax	\$76.2	\$71.5	<\$4.7>	-6.2%
Corporate Tax	\$21.5	\$20.5	<\$1.0>	-4.6%
Sales and Use Tax	\$18.8	\$18.6	<\$0.2>	-1.1%
Totals	\$116.55	\$110.6	<\$5.9>	-4.8%

- ▶ LAO is projecting a current year shortfall of \$15.3 billion
- ▶ May Revise and final budget revenue picture uncertain



2024-25 Governor's January Proposal Highlights

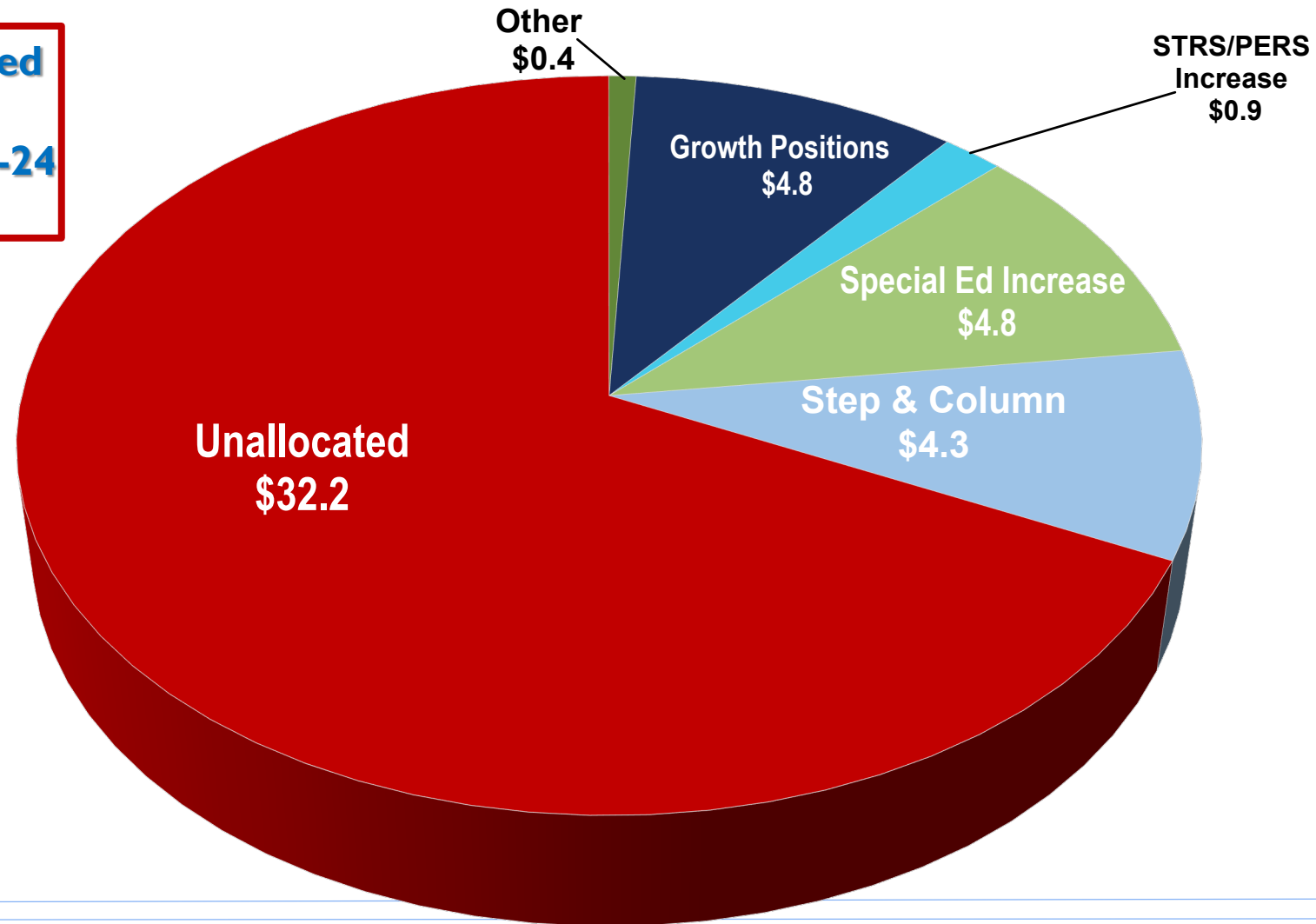


- ▶ Governor's proposal essentially funds a statutory Cost-of-Living Adjustment (COLA) of **0.76%** for the Local Control Funding Formula (LCFF) and most categorical programs....significant departure from recent years
 - ▶ **2022-23 COLA: 6.56% Augmented to 13.26%**
 - ▶ **2023-24 COLA: 8.22%**
 - ▶ In contrast to recent years, there are no new programs and no additional one-time funds
- ▶ The Local Control Funding Formula (LCFF) – represents approximately 95% of IUSD's unrestricted funding
 - ▶ For IUSD the 0.76% COLA represents a year-over-year ongoing increase of approximately \$6 million
- ▶ This level of funding will be insufficient to pay for annual increases in expenditures related to step and column, pension costs, and special education.....



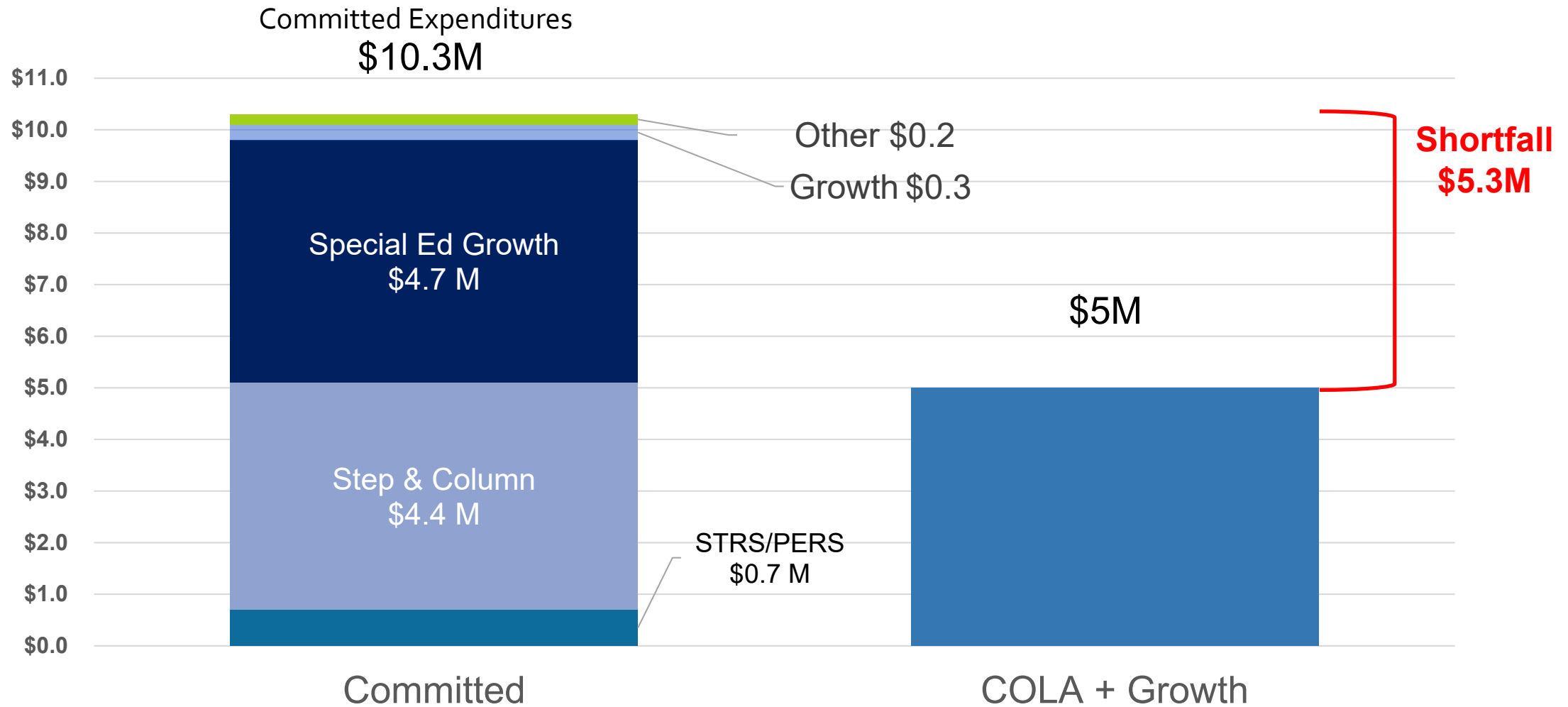
Utilization of Ongoing \$47.4 million in 2023-24

**District received
an 8.22%
COLA in 2023-24**





2024-25 Allocation of \$5 Million COLA & Growth (Assumes .76% COLA)





Ongoing Challenges



- ▶ The Local Control Funding Formula represents well over 90% of Unrestricted Revenue (for IUSD 95%), yet funding disproportionately benefits districts with high concentrations of disadvantaged students
- ▶ Large influx of State one-time funding
 - ▶ Manageability difficult
- ▶ State revenues very volatile
 - ▶ Heavily dependent on high income earners driven largely by capital gains from the stock market
 - ▶ Inflation remains at least a temporary concern – may cause stock market volatility and negatively impact 2023-24 State Capital Gains
- ▶ Impact of ongoing pension increases

Utilization of New 2022-23 Additional One-time Funding (Approximately \$51.3M)

Learning Recovery Emergency Block Grant
Estimated Funding: 22.1M

Allowable Uses:

- Increase instructional learning time
- Implement or expand learning supports to close learning gaps
- Integrate pupil supports and staff support/training to address other barriers to learning
- Provide access to instruction for credit-deficient pupils to graduate or improve college eligibility
- Provide additional academic services to pupils such as diagnostic, progress monitoring, and benchmark assessments for pupil learning

Arts, Music and Instructional Materials
Discretionary Block Grant
Estimated Funding: \$21.7M

Allowable Uses:

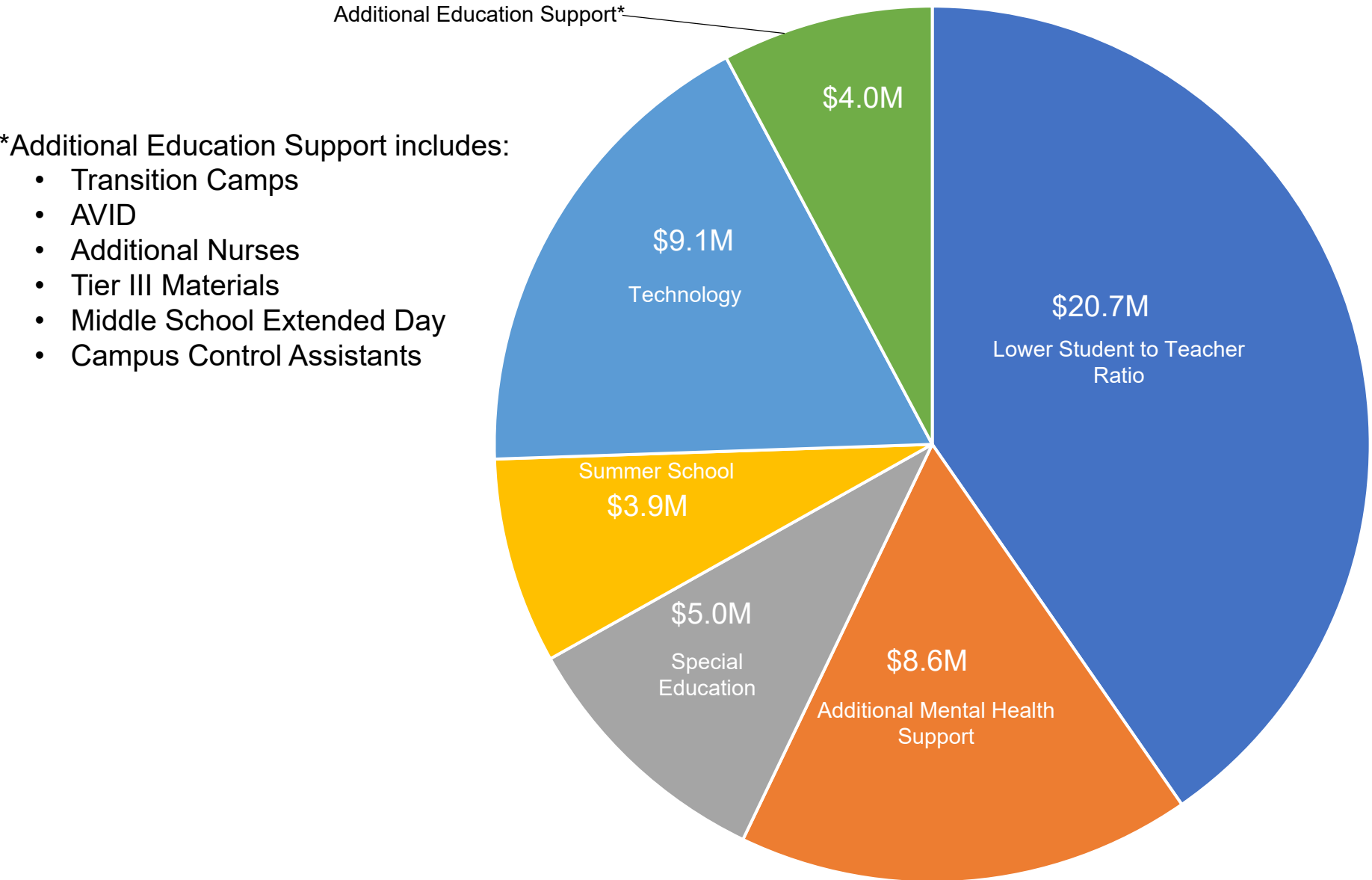
- 100% Discretionary - can be used on any operational costs
- Suggested additional uses:**
- Diverse and culturally relevant book collections for school and classroom libraries
 - Standards-aligned professional development and instructional materials
 - Instructional materials and professional development on improving school culture
 - COVID-19 related materials, supplies, and equipment

Other Available One-time Funds:\$7.5M

Allowable Uses:

- 100% Discretionary - can be used on any operational costs
- Funds are from department and district carryover from current and prior years

Distribution of \$51.3 Million in One-Time Funds

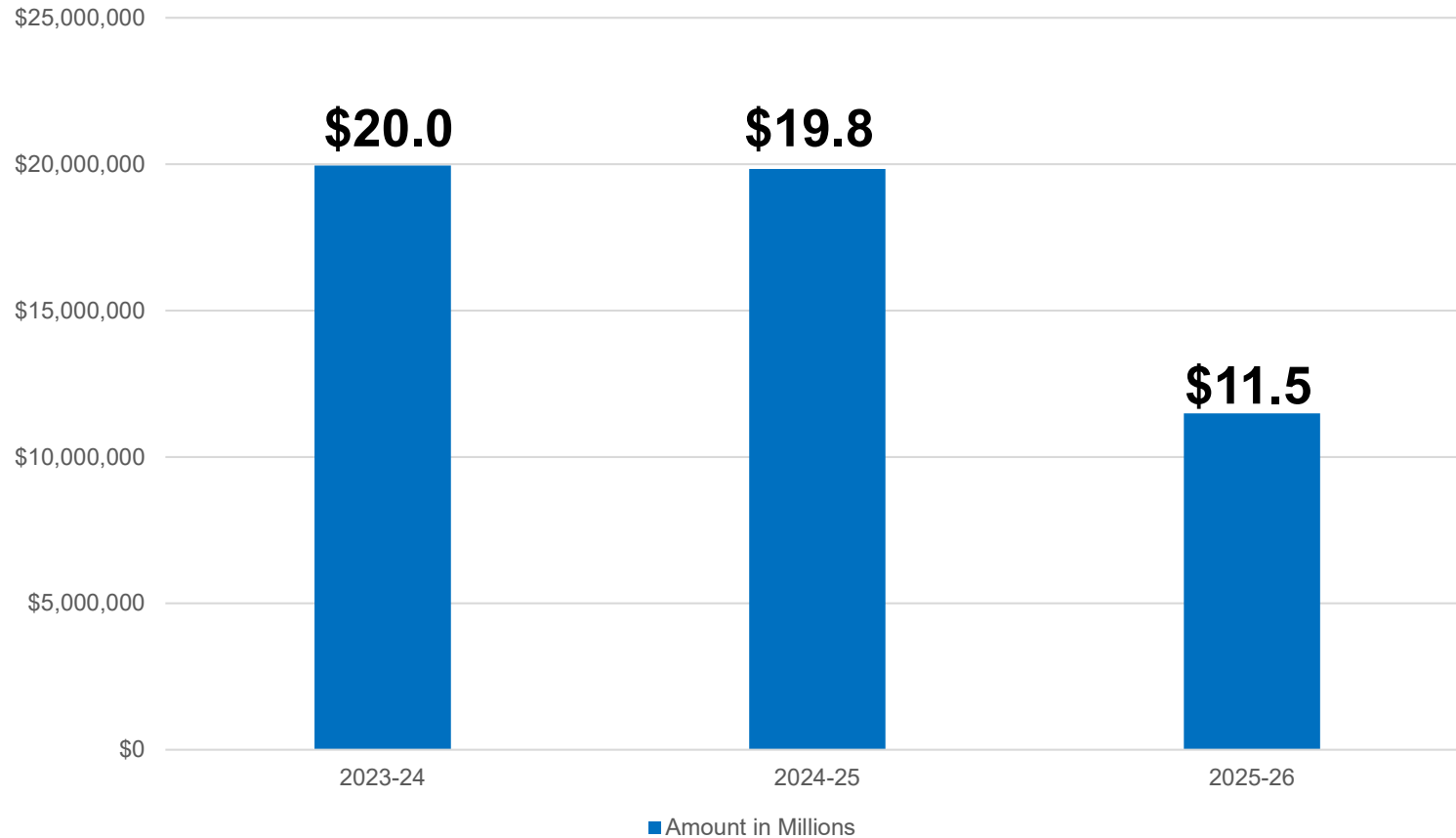


*Additional Education Support includes:

- Transition Camps
- AVID
- Additional Nurses
- Tier III Materials
- Middle School Extended Day
- Campus Control Assistants

Planned One-Time Expenditures By Year

(in millions)



Given the significance of the one-time funding, districts will need to ensure an exit strategy as one-time funds cannot be used to fund ongoing programs and/or costs...



2023-24 Second Interim Assumptions

	2023-24 Projected	2024-25 Projected	2025-26 Projected
ADA (funded)	36,159	36,298	36,562
LCFF Funding per student	\$11,865	\$11,956	\$12,325
Property Tax Increases	5%	5%	5%
Salary Increases (On-going)	TBD	TBD	TBD
Salary Increases (One-time)	TBD	TBD	TBD
Step & Column Increases	2%	2%	2%
Health Insurance Contributions	\$12,400	\$12,400	\$12,400
Utility Increases	4%	4%	4%
District Reserve Level	2%	2%	2%
Contingency Reserve	5,000,000	5,000,000	5,000,000



2023-24 Second Interim Financial Comparison

General Fund Unrestricted Balance

Description	2023-24 1 st Interim	2023-24 2 nd Interim	Variance
Total Revenues	\$454,528,815	\$458,870,332	\$4,341,517
Total Expenditures	(\$347,464,237)	(\$347,092,048)	\$372,189
EXCESS (DEFICIENCY)	\$107,064,578	\$111,778,284	\$4,713,706
Total Other Sources/Uses	(\$97,333,957)	(\$100,253,958)	(\$2,920,00)
NET INCREASE (DECREASE)	\$9,730,621	\$11,524,326	\$1,793,705
Beginning Balance, July 1	\$49,593,467	\$49,593,467	-----
Ending Balance, June 30	<u>\$59,324,088</u>	<u>\$61,117,793</u>	<u>\$1,793,705</u>



2023-24 Second Interim Financial Comparison

Components of Unrestricted Ending Fund Balance

Description	2023-24 1 st Interim	2023-24 2 nd Interim	Variance
Estimated Ending Fund Balance	\$59,324,088	\$61,117,793	\$1,793,705
<i>Components of Ending Fund Balance:</i>			
Revolving Cash/Stores	\$350,000	\$350,000	-----
State Required Reserve	\$11,945,000	\$12,225,000	(\$280,000)
Contingency Reserve	\$5,000,000	\$5,000,000	-----
Reserve for 2024-25 LCAP	\$5,485,500	\$5,485,500	-----
Other Unassigned - Ongoing	\$32,200,000	\$32,200,000	-----
Other Unassigned – One Time	\$4,343,588	\$5,857,293	\$1,513,705



Unrestricted General Fund Financial Outlook

Description	2023-24 Projected	2024-25 Projected	2025-26 Projected
Total Revenues	\$458,870,332	\$462,870,951	\$479,742,634
Total Expenditures	(\$347,092,048)	(\$339,836,299)	(\$346,478,056)
EXCESS (DEFICIENCY)	\$111,778,284	\$123,034,652	\$133,264,578
Total Other Sources/Uses	(\$100,253,958)	(\$92,585,270)	(\$98,997,621)
NET INCREASE (DECREASE)	\$11,524,326	\$30,449,382	\$34,266,957
Beginning Balance, July 1	\$49,593,467	\$61,117,793	\$91,567,175
Ending Balance, June 30	<u>\$61,117,793</u>	<u>\$91,567,175</u>	<u>\$125,834,132</u>



Next Steps

- ▶ Budget Process: February – June
 - ▶ Legislators will seek input from stakeholders, hold negotiations with Governor’s Administration
 - ▶ Statewide revenues and expenditures will be updated
 - ▶ Governor will issue May Revise in mid-May
 - ▶ District will build 2024-25 budget based on May Revise and adopt budget in June
- ▶ LCAP Process: February – June
 - ▶ Feb/March – Meet with District and site stakeholders and obtain feedback with stakeholder groups
 - ▶ April – Budget/LCAP Board Study Session
 - ▶ June 11 – Board meeting public hearing on LCAP and Budget
 - ▶ June 25 – Adoption of LCAP and Budget



Certification Definition

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.

Positive certification is recommended



Thank You!