

Irvine Unified School District First Interim Report



Presented by John Fogarty

December 17, 2019

Financial Reporting Cycle



- ✓ State Budget Adoption July
- ✓ 2018-19 Unaudited Actuals September
- ✓ First Interim Report December
- Governor's 2020-21 Budget Proposal January
- Second Interim Report March
- 2020-21 Budget LCAP Study Session April
- IUSD 2020-21 Budget Adoption. June

First Interim Report



Interim Report Purpose:

- ❑ The First Interim Report represents the District's first official revision to the District's 2019-20 Adopted Budget
- ❑ The First Interim Report includes actual financial information through October 31, 2019 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 2019 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 2019-20 through 2023-24
 - ❑ Provided to assist in development of 2020-21 State Budget
- ❑ Recognizing length of the current economic recovery and volatility of California's economy, the report outlines more than one scenario:
 - ❑ Near-Term Outlook
 - ❑ Long-Term Economic Growth Scenario
 - ❑ Long-Term Recession Scenario

Legislative Analysts Office

November 2019 Fiscal Outlook



□ Near-Term Outlook

- Covers 2019-20 through 2020-21
- U.S. economy will continue to grow although at slower pace than in recent years.
- California economic growth anticipated at modest rate and is expected to add jobs but more slowly than in recent years
- After slumping through much of 2019, California housing market expected to rebound slightly in response to falling interest rates
- General Fund revenues will continue to increase driven by tight labor market and increases in Personal Income Taxes (PIT) and capital gains but at a slower rate than previous years
- Budget surplus of \$7 billion projected in 2020-21
- Economic outlook for 2020-21 at greater risk than previous budget cycles
- Cautions Legislature regarding allocation of surplus in ongoing vs. one-time commitments

Legislative Analysts Office

November 2019 Fiscal Outlook



□ Long-Term Economic Growth Scenario

- Continued economic expansion of State revenues of approximately 3.4% on average through 2023-24
- Assumes continued job growth at slower pace than previous years
- Moderate but steady growth in personal income, sales and use and corporate tax revenue
- Flattening of stock market gains projected through 2023-24
- Budget surpluses average \$3 billion through 2023-24 – reserves sufficient
- Spending grows nearly 2.9% based on current policies.....

□ Long-Term Recession Scenario

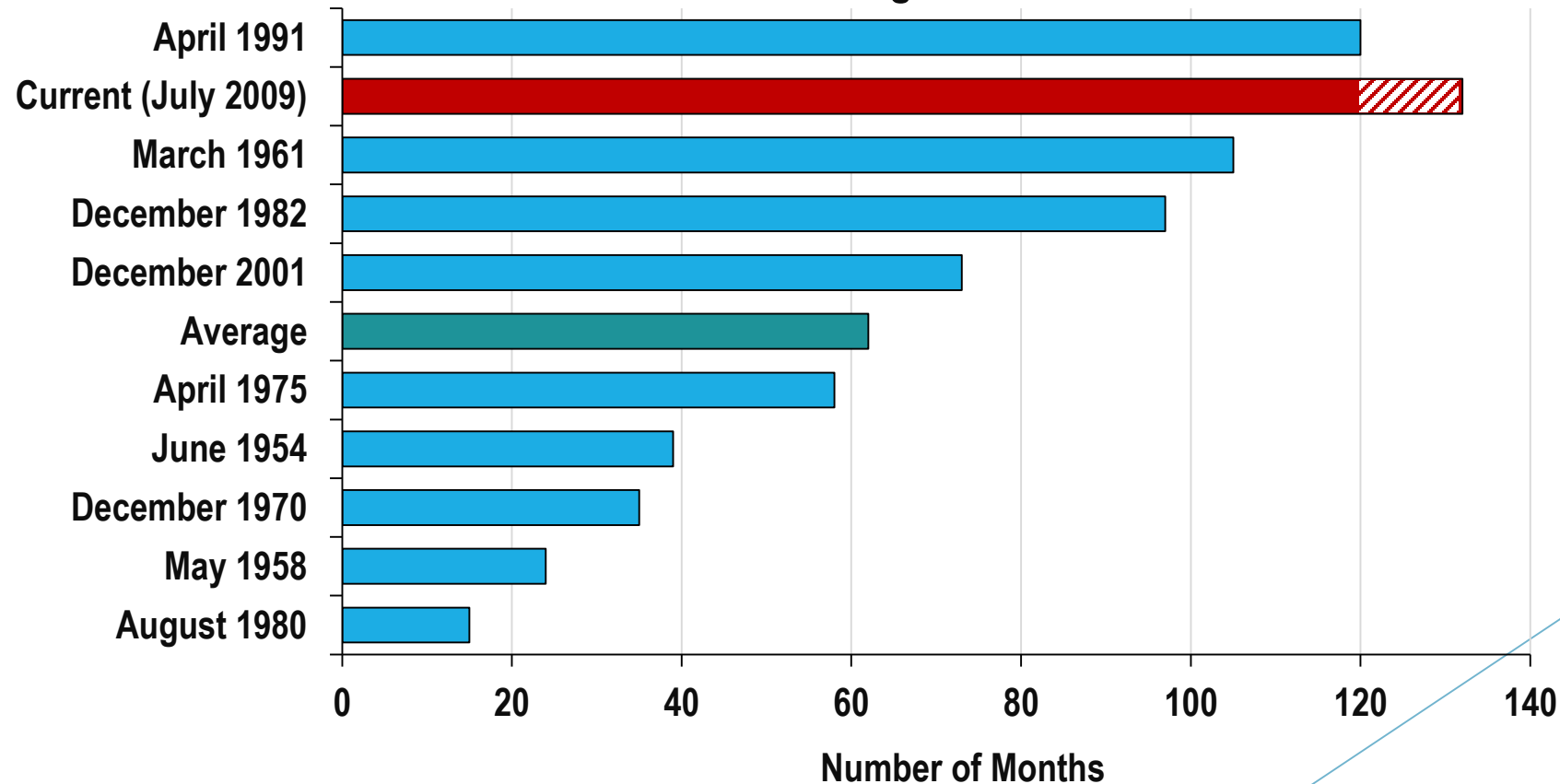
- Assumes state enters a recession in January 2021
- Assumes 30% reduction in S&P 500
- Assumes decline in State revenues by \$50 billion between 2020-21 and 2023-24, largely driven by anticipated reductions in personal and corporate taxes
- Budget deficits offset by State reserves through 2023-24
- Schools funded at Proposition 98 minimum levels reduced by \$20B

Current Economic Expansion Already Among Longest in U.S. History

Caution: Economic Growth Scenario would represent longest expansion in U.S. History

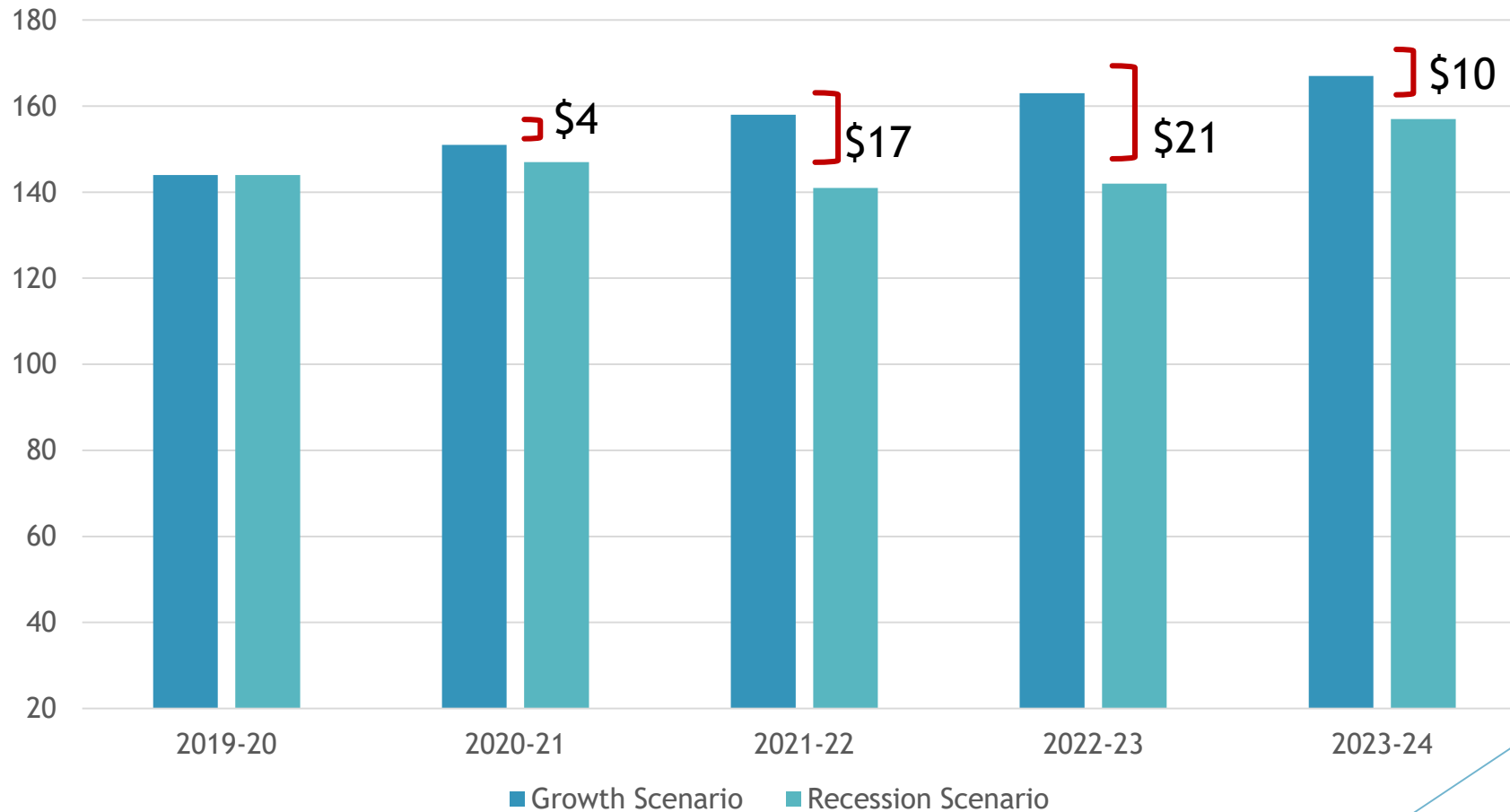


**Current Recovery Is Approaching
The Longest Ever**



Long-Term Revenue Outlook

Total General Fund Revenues and Transfers (In Billions)



Source: LAO November 2019 Fiscal Outlook



Legislative Analysts Office

November 2019 Fiscal Outlook

Proposition 98



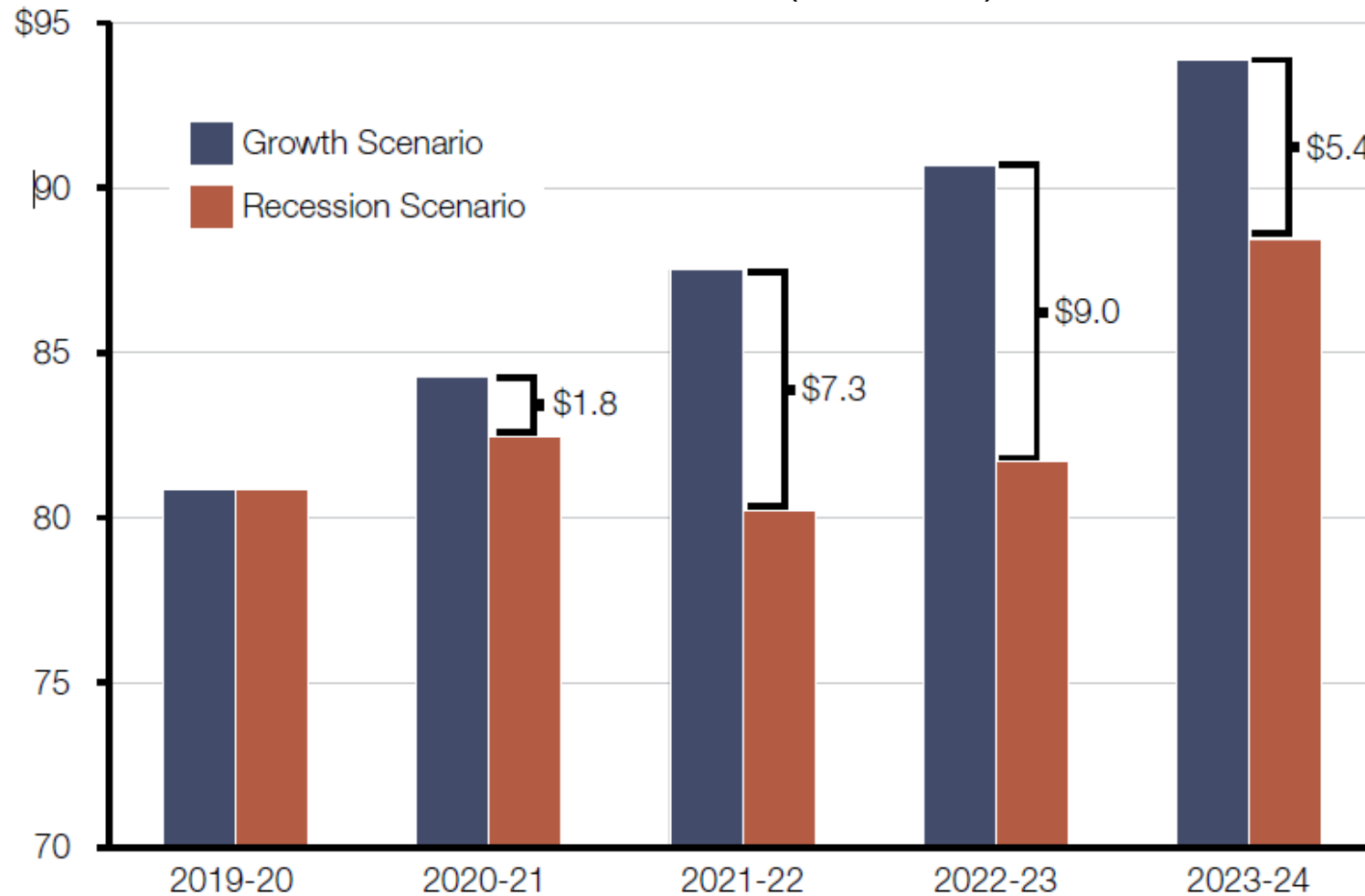
- **Long-Term Economic Growth Scenario – Education Funding**
 - Under LAO’s Economic Growth Scenario, state revenues will continue to grow through 2023-24 resulting in steady increases in Proposition 98 funding
 - Annual growth estimated at approximately \$3.3 billion or 3.8%; sufficient to fund modest Cost-of-Living Adjustments (COLA) leaving minimal additional funding to expand existing programs or one-time initiatives

- **Long-Term Recession Scenario – Education**
 - Assumes moderate economic downturn with declines in State revenues in 2020-21 and 2021-22.
 - Proposition 98 estimated to decline by 9.9% or \$9 billion through 2022-23 before growing again in 2023-24
 - Proposition 98 to be funded at minimum formula levels
 - Likely result in cuts to ongoing programs or revert to payment deferrals

Comparing Proposition 98 Minimum Guarantee Under Two Long-Term Scenarios



LAO Estimates (in Billions)



Source: LAO November 2019 Fiscal Outlook

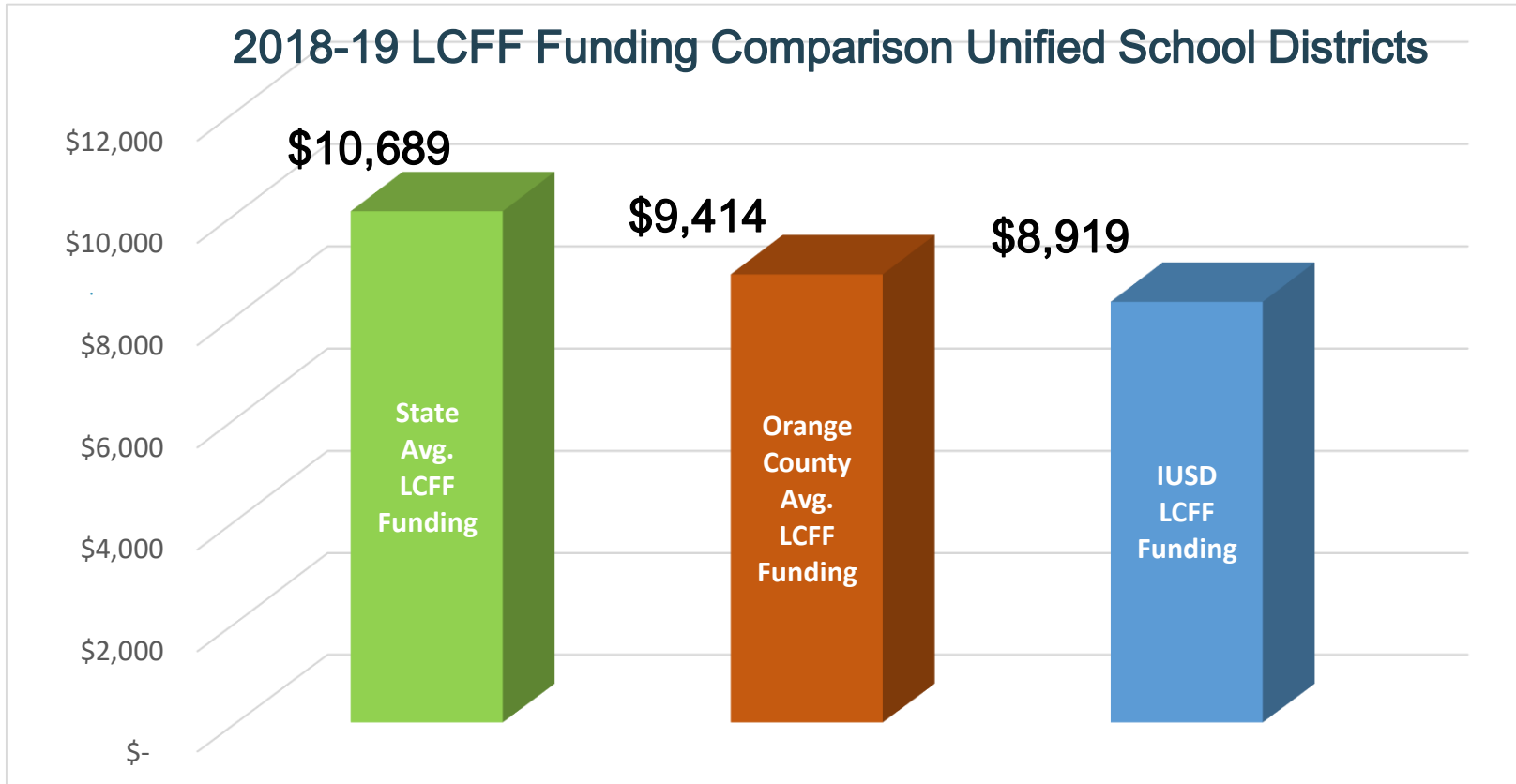
Ongoing Challenges



- ▶ LAO is projecting a 1.79% Cost-of-Living Adjustment (COLA) for 2020-21
 - ▶ Significantly below the 3% estimated
 - ▶ Roughly equal to cover the increased costs for STRS and PERS statewide
 - ▶ Insufficient to cover ongoing cost increases for special education, step and column movement, healthcare, legal fees, utilities....etc.
- ▶ Administration and Legislature continue to fund education at the Proposition 98 *minimum* guarantee – not intended to be a maximum funding level
- ▶ 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



Note: IUSD funded \$1,770/ADA below statewide average for Unified School Districts statewide. Impact \$62.2 million.....

2019-20 First Interim Assumptions



	2019-20 Projected	2020-21 Projected	2021-22 Projected
ADA	35,140	35,789	36,372
LCFF Funding per student	\$9,226	\$9,502	\$9,766
Property Tax Increases	5%	5%	5%
Salary Increases (On-going)	N/A	N/A	N/A
Salary Increases (One-time)*	N/A	N/A	N/A
Step & Column Increases	2%	2%	2%
Health Insurance Contributions	\$10,275	\$10,275	\$10,275
Utility Increases	4%	4%	4%
District Reserve Level	2%	2%	2%

2019-20 Budget & Multiyear Projections

Unrestricted General Fund



Unrestricted	2019-20 Projected	2020-21 Projected	2021-22 Projected
Total Revenues	\$344,677,177	\$358,707,515	\$374,303,293
Total Expenditures	(\$278,847,246)	(\$276,393,326)	(\$284,648,129)
EXCESS (DEFICIENCY)	\$65,829,931	\$82,314,189	\$89,655,164
Other Sources/(Uses)	(\$70,334,951)	(\$64,760,975)	(\$67,666,037)
Net Increase/(Decrease)	(\$4,505,020)	\$17,553,214	\$21,989,127
Beginning Balance, July 1	\$46,723,656	\$42,218,636	\$59,771,850
Ending Balance, June 30	<u>\$42,218,636</u>	<u>\$59,771,850</u>	<u>\$81,760,977</u>

2019-20 Budget & Multiyear Projections

Components of Ending Fund Balance



Description	2019-20 Projected	2020-21 Projected	2021-22 Projected
Estimated Ending Fund Balance	\$42,218,636	\$59,771,850	\$81,760,977
<i>Components of Ending Fund Balance:</i>			
Revolving Cash/Stores	\$350,000	\$350,000	\$350,000
State Required Reserve	\$8,644,000	\$8,152,141	\$8,390,503
Contingency Reserve	\$5,000,000	\$5,000,000	\$5,000,000
<i>Deferred Allocations:</i>			
Deferred 2019-20 LCAP	\$600,000		
19-20 Budget Unallocated*	\$24,418,166	\$24,418,166	\$24,418,166
Other Assigned/Unassigned	\$3,206,470	\$21,851,543	\$43,602,308

* \$9.8 million in ongoing and \$14.6 million in one-time funding available

2019-20 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?

