



IRVINE UNIFIED SCHOOL DISTRICT

IUSD 2020-21 Budget Adoption

June 23, 2020



Agenda

- Provide an Overview of the State's Financial Outlook and impact of COVID 19 Pandemic
- Impact of impending recession to Proposition 98
- Discuss District's Budget Development Process
- Provide an overview of the Governor's May Revise Budget Proposal including specific impact to IUSD
 - **Notified yesterday that a Budget Deal has been reached between the Legislature and Administration which changes the May Revise dramatically....**
- Review 2020-21 proposed one-time and ongoing budget solutions
- Provide financial illustration of IUSD's 2020-21 budget and multiyear projections



State Finances

- The impacts of the COVID 19 pandemic have had a profound impact on the State and National Economy
- Ten plus years of economic expansion has come to an unprecedented and unforeseen abrupt halt; the nation and State are now in a recession
- The “Big Three” taxes – Personal Income Tax (PIT), Sales and Use Tax, and Corporate Income Tax make up the majority of the State General Fund revenue
- While the May Revision is typically constructed based on actual revenue collections and stable economic projections, both are absent this year
 - PIT tax receipts will not be known until after July 15
 - August Revise? Likely..... – State budget may be amended mid-year



State Finances

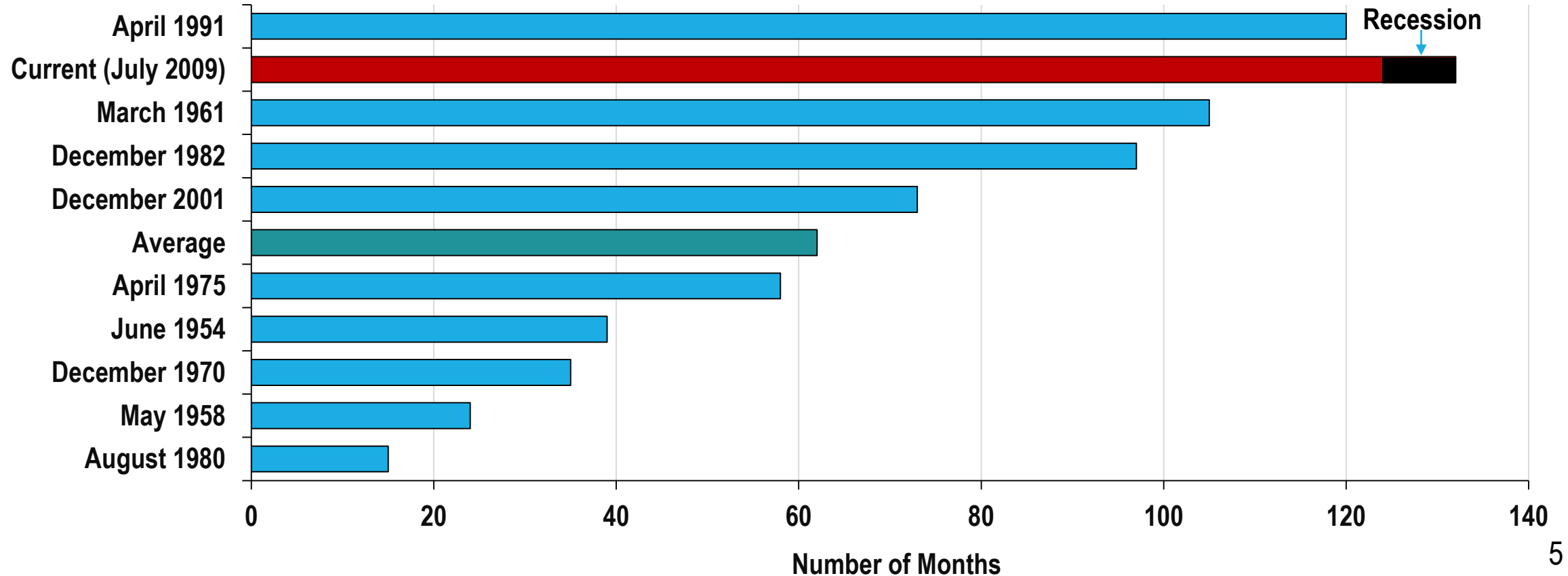
- Through analysis by the Legislative Analysts Office (LAO) and the Department of Finance (DOF), the May Revision assumes the State will lose \$41.2 billion in revenues compared to January estimates in 2019-20 and 2020-21
 - (\$9.1 billion) in 2019-20
 - (\$32 billion) in 2020-21
- Revenue losses are compounded by the growing need for State safety net services, bringing the State's total two year shortfall to \$54 billion
- Unfortunately State revenues have a direct impact on K-14 Proposition 98 funding...
- Proposition 98 down approximately \$18 billion over two years 2019-20 and 2020-21





Economic Recovery/Growth

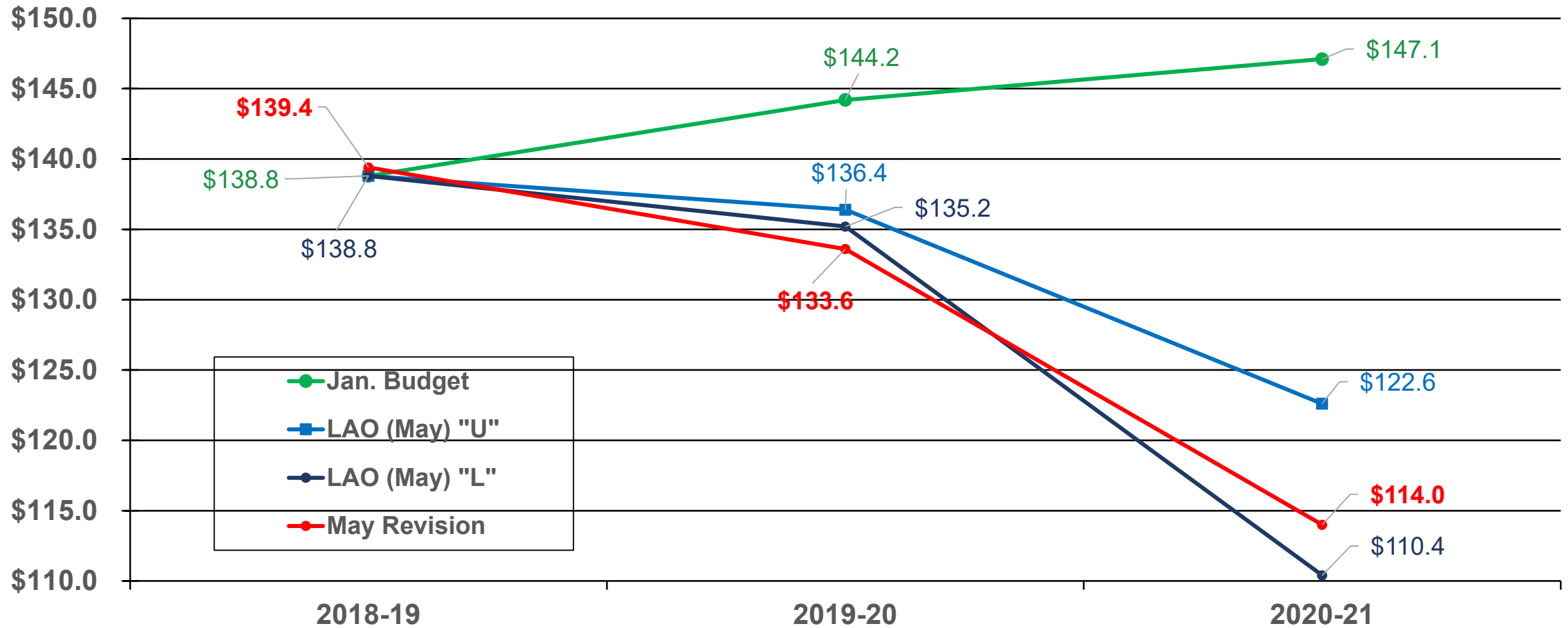
Current Recovery Is Over.....





Projected "Big 3" General Fund Revenues

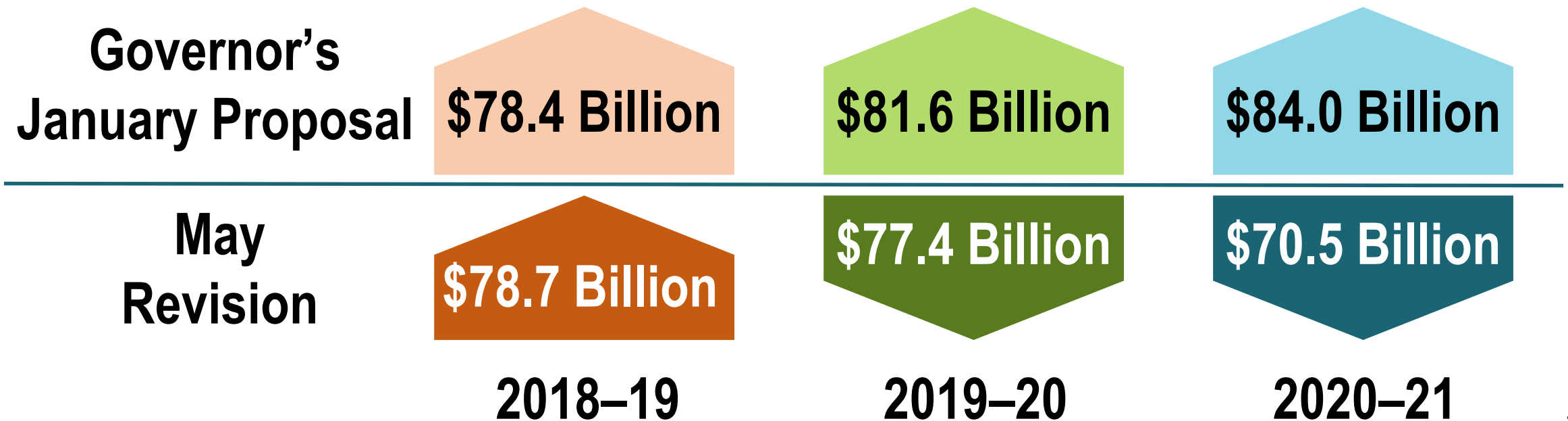
(Dollars in Billions)





Proposition 98 Funding

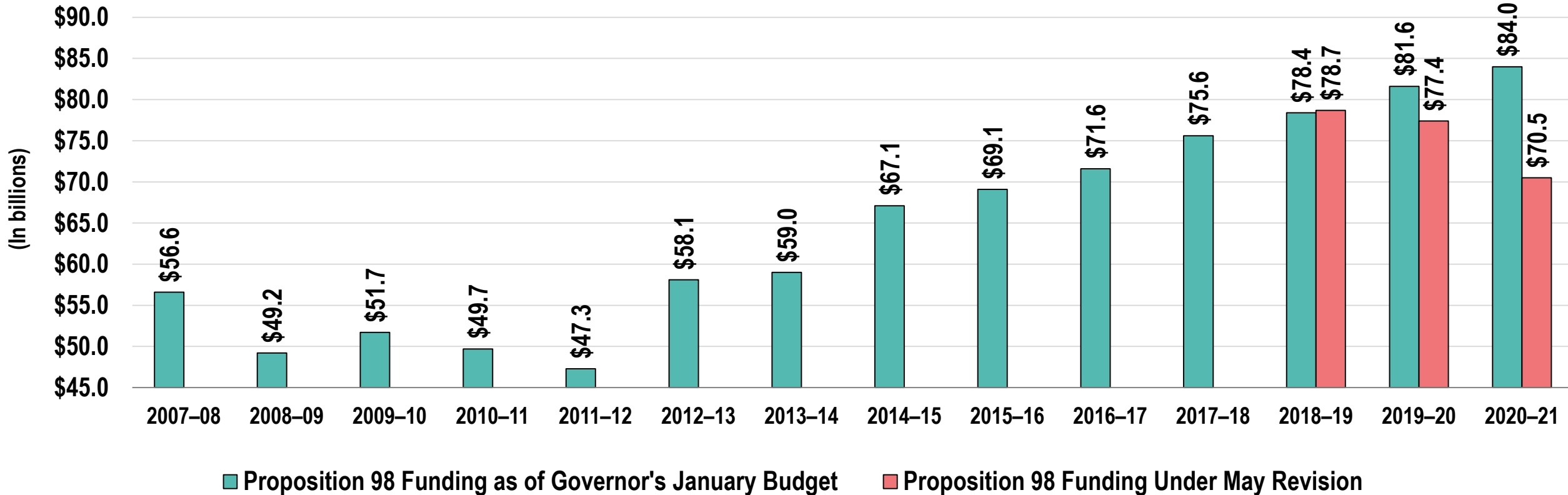
- Proposition 98 funding levels have decreased significantly from the Governor's January 2020-21 State Budget for two of the three fiscal years
 - ◆ The May Revision estimates that the minimum guarantee will decline approximately 23% from the 2019 State Budget Act over the three-year budget period





K-12 & Community College Funding

Proposition 98 Funding 2007-08 to 2020-21





2020-21 Budget Development Process

- Ed Code 42127 requires school districts to adopt a budget prior to July 1 annually.
- The District's budget is intended to illustrate the District's ability to meet its financial obligations in the budget and two subsequent fiscal years and the county office of education is required to approve or disapprove the District's budget based on this review.
- On May 14, 2020, the Governor released the May Revision to his 2020-21 January State Budget Proposal with severe cuts proposed for K-12 education
- Due to timing and in the absence of a Final State Adopted Budget, districts build budgets based on the Governor's May Revision
- With inadequate time to implement the forecast budget reductions necessary to illustrate if the District will be able to meet its financial obligations in 2021-22 and 2022-23, the Orange County Department of Education will accept a "Fiscal Solvency Statement" approved by the Governing Board.
 - **No Longer necessary.....**



2020-21 Budget Development Process

- The District's Budget is updated throughout the year
 - First Interim – December
 - Second Interim – March
- Budget assumptions are developed with guidance from:
 - The Orange County Department of Education (OCDE)
 - School Services of California (SSC)
 - The California Association of School Business Officials (CASBO)
 - A variety of other sources....





2020-21 May Revise Highlights

- Local Control Funding Formula:

- Faced with significant reductions to Proposition 98 funding, the May Revise imposed a statewide cut of \$6.5 billion or 10% to the Local Control Funding Formula (LCFF)
- Proposal was forecast as an ongoing cut to IUSD of (\$33.4 million)
- **New proposal – suspension of 2.31% Cost-of-Living Adjustment; no cut to LCFF**
- **Revised ongoing impact to IUSD of approximately (\$7.4 million) an improvement of approximately \$26 million over May Revise**
- The COLA for all categorical programs outside the LCFF including Special Education is suspended





2020-21 May Revise Highlights

- Special Education:

- Special Education remained a priority for the Governor and the May Revise substantially maintains the Governor's January proposal:
 - \$645 million is allocated to fund a new Special Education base formula based on a three-year rolling average ADA
 - **Impact to IUSD - \$2.7 million**
 - **Proposal largely kept in place.....**
 - It is currently estimated that these funds will be available to offset existing encroachment and thus will provide relief to the General Fund
- **In recognition of the devastating cuts proposed to education, the Governor's May Revise offers additional revenues and flexibility options.....**



Coronavirus Aid Relief, and Economic Security (CARES) Act Funds

**\$1.65 billion in Elementary and Secondary School Emergency Relief (ESSER) funds
(Remained in Final State Budget)**



**At least 90% or \$1.5 billion allocated to Local Education Agencies (LEAs) based Title I, Part A
allocation**



Funds shall be expended by September 2022

Broad discretion for use of funds (yet currently undetermined)..... Calculated impact to IUSD \$2 million



Coronavirus Aid Relief, and Economic Security (CARES) Act Funds

May Revise - \$4.4 billion for LEAs to mitigate learning loss



Allocated to LEAs using formula that considers the State's most vulnerable students

\$1.5 billion distributed per pupil based on number of students with a disability

\$2.9 billion to concentration grant districts on a per ADA basis

• Potential Impact to IUSD - \$6.8 million

• Impact to IUSD - \$0



Funds shall be expended by December 30, 2020 on the following activities:

Extending the instructional school year

Additional academic services

Learning supports

Wrap around services



Coronavirus Aid Relief, and Economic Security (CARES) Act Funds

(Augmented in Final State Budget Deal)
Approximately \$5.4 billion to mitigate learning loss



Allocated to LEAs using formula that considers the State's most vulnerable students

\$1.5 billion distributed per pupil based on number of students with a disability

- Potential Impact to IUSD - \$6.8 million

\$2.9 billion allocated to LEAs in proportion to their 2019-20 combined Supplemental and Concentration Grant funding

- Impact to IUSD - \$5.7m



\$1.0 billion to LEAs in proportion to their 2019-20 total LCFF entitlement

- Impact to IUSD - \$5.0m



Orange County Department of Education Guidance on Federal Funds – Learning Loss

- The ultimate allocation and application of the \$4.4 billion in CARES Act funding is unknown at this time and the proposal is likely to change as it moves through the legislative process
- As currently proposed, funding is restricted in nature and it is unclear if funds can be used to alleviate unrestricted expenditures thus mitigating the cuts to LCFF funding
- For these reasons, the Orange County Department of Education recommended that Districts **do not** include this funding in their budgets until more information is known





STRS/PERS Relief

May Revision proposes redirecting the \$2.3 billion for employer long-term unfunded liability provided in the 2019-20 Budget to further reduce CalPERS and CalSTRS contribution rates in 2020-21 and 2021-22 – **Impact to USD \$5 million**

CalSTRS

Fiscal Year	Under 2019 Budget Act	Under May Revision
2019-20	17.1	17.1
2020-21	18.4	16.15 (-2.25)**
2021-22	18.2*	16.02 (-2.18)**
2022-23	18.1*	18.1**
2023-24	18.1*	18.1**

CalPERS

Fiscal Year	Under 2019 Budget Act	Under May Revision
2019-20	19.7	19.7
2020-21	22.7	20.7 (-2.00)**
2021-22	25.0*	22.8 (-2.20)**
2022-23	25.5*	25.8**
2023-24	26.2*	26.5**
2024-25	26.5*	26.8**
2025-26	26.4*	26.7**
2026-27	26.2*	26.5**

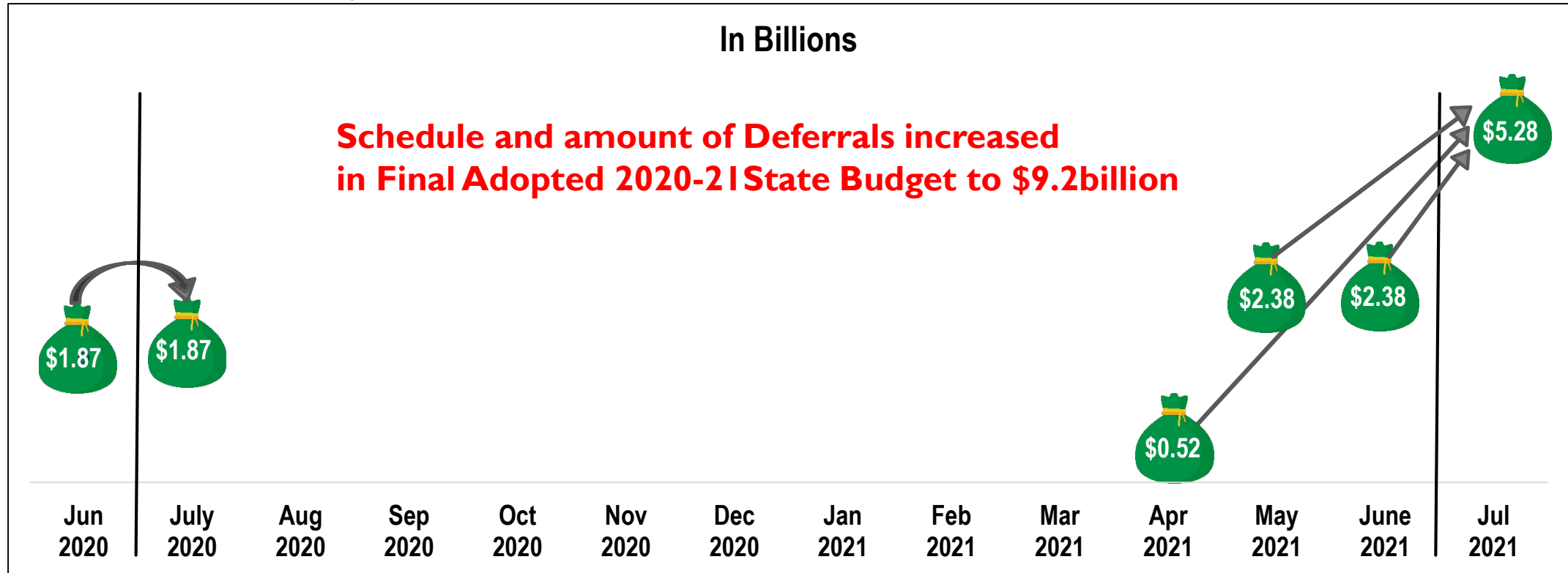
*Latest projected rates

**Does not reflect any rate increases STRs or PERs may enact to address investment losses



Funding Deferrals

- The proposed deferrals in the May Revision are illustrated as follows:



- The May Revision proposes a process for local school agencies to apply for an exemption from any or all of the April, May, and June 2021 deferrals due to financial hardship



2020-21 Flexibility

Exemption from deferrals for hardship reasons

Ability to exclude State's STRS on-behalf-of-employer payments in the Routine Restricted Maintenance Account (RRMA) calculation – **Impact to IUSD \$0.5 million**

Subject to public hearing, the ability to increase internal inter-fund borrowing limits

Authority for Special Education staff to use technology-based options to serve students

Use proceeds from property sales for one-time General Fund purposes

Extend the transitional kindergarten teacher credential requirement from August 1, 2020 to August 1, 2021



Proposition 98 Supplemental Payments

- The Proposition 98 minimum guarantee is projected to be determined by Test 1—simply a share of the State's General Fund expenditures—for the foreseeable future
- With COVID-19's impact on the State's revenues, education funding is dropping precipitously
- The Governor proposes a way to hasten K–14's recovery from this devastating impact through out-year supplemental payments to the minimum guarantee up to a total of \$13 billion
 - This is not a constitutional obligation

**Guarantee
currently is
about 38%
of General
Fund
revenues**

**The goal is to
increase
education's
share to
40% by
2023–24**

**Supplemental
payments of
1.5% of
General Fund
revenues
beginning in
2021–22**



Flexibility Left off.....

During the Great Recession the State provided flexibility meant to assist school districts during the crisis. While the May Revise provides some flexibility, key options were not included.

**Included in
Final Budget**

**Extend ADA
Hold
harmless
through
2020-21**

**Flexibility to
reduce
instructional
year and
minutes**

**Reduce or
suspend
Routine
Restricted
Maintenance**

**Flexibility to
use
Supplemental
and
Concentration
Grant Funds**

**Ability to
sweep
categorical
ending fund
balances**



2020-21 Budget Solutions

	2020-21	Ongoing Solutions	One-Time Solutions
Projected 2020-21 10% LCFF Cut	(\$33,400,000)		
<u>Governor's proposal/flexibility</u>			
Special Education Funding	\$2,700,000	\$2,700,000	
Pension Contribution Relief	\$5,000,000	\$5,000,000*	
Routine Restricted Maintenance	\$500,000	\$500,000	
Stub total	\$8,200,000	\$8,200,000	
Revised Shortfall	(\$25,200,000)		

* Pension relief proposed for 2020-21 and 2021-22 only.



2020-21 Budget Solutions

	2020-21	Ongoing Solutions	One-Time Solutions
Revised Shortfall	(\$25,200,000)		
<u>District 2020-21 identified budget solutions</u>			
Estimated fall out of 2019-20	\$5,373,219		\$5,373,219
Utilization of Contingency Reserve	\$5,000,000		\$5,000,000
Utilization of Instructional Materials Reserve	\$5,900,000		\$5,900,000
Utilization of Unallocated 2020-21 LCAP	\$3,760,061		\$3,760,061
Suspend partial allocation of ongoing Instructional Materials	\$2,000,000	\$2,000,000	
Suspend annual contribution to Workers Compensation Fund	\$5,000,000	\$5,000,000	
Sub total	\$27,033,280	\$15,200,000	\$20,033,280*
Shortfall	\$1,833,280		

* \$20 million of the \$35 million cut includes one-time solutions in 2020-21.



2019-20 thru 2022-23 Budget Forecast

Unrestricted General Fund

Description	2019-20 Estimated	2020-21 Budget	2021-22 Projected	2022-23 Projected
Total Revenues	\$344,878,082	\$318,302,957	\$322,809,552	\$326,607,746
Total Expenditures	(\$273,188,564)	(\$276,418,403)	(\$282,013,351)	(\$293,284,155)
EXCESS (DEFICIENCY)	\$71,689,518	\$41,884,554	\$40,796,201	\$33,323,591
Other Sources/Uses	(\$69,951,499)	(\$67,601,385)	(\$65,241,711)	(\$70,022,006)
Net Increase/(Decrease)	\$1,738,019	(\$25,716,831)	(\$24,445,510)	(\$36,698,415)
Potential Budget Reductions			\$19,886,308	\$37,039,436
Beginning Balance	\$46,723,656	\$48,461,675	\$22,744,844	\$18,185,642
Projected Ending Balance	\$48,461,675	\$22,744,844	\$18,185,642	\$18,526,663



2019-20 thru 2022-23 Budget Forecast

Unrestricted General Fund

Description	2019-20 Estimated	2020-21 Projected	2021-22 Projected	2022-23 Projected
Estimated Ending Fund Balance	\$48,461,675	\$22,744,844	\$18,185,642	18,526,663
<u>Components of Fund Balance:</u>				
Revolving Cash/Stores	\$350,000	\$350,000	\$350,000	\$350,000
State Recommended DEU	\$8,383,000	\$8,544,000	\$8,318,346	\$8,659,367
Reserved for 2020-21 LCAP	\$11,631,395*			
Site/Department Carryover	\$7,464,000	\$7,464,000	\$7,464,000	\$7,464,000
Reserved from 2019-20 LCAP	\$600,000			
Federal ESSER Funding		\$2,053,296	\$2,053,296	\$2,053,296
Contingency Reserve	\$5,000,000			
Textbook Reserve	\$5,900,000			
Unallocated 2020-21 LCAP	\$3,760,061			
Other/Unassigned	\$5,373,219	\$4,333,548		



Future Potential Implications to the Budget

- Federal CARES Act Funding – How much? Application?
- Expanded flexibility options
- Enrollment Growth/Average Daily Attendance
- Increase costs associated with alternative education models
- Economic Recovery at National and State Level
- Length of pandemic





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Questions?