Irvine Unified School District
First Interim Report

Presented by John Fogarty
December 14, 2021
Financial Reporting Cycle

✓ State Budget Adoption . . . . . . . . . . . . . . . . . . . . . . . . . . . July
✓ 2020-21 Unaudited Actuals . . . . . . . . . . . . . . . . . . . . . . . . . . September
✓ First Interim Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . December

Governor’s 2022-23 Budget Proposal . . . . . . . . . . . . . . . . . . . . January
Second Interim Report . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . March
2022-23 Budget LCAP Study Session . . . . . . . . . . . . . . . . . . . . April
IUSD 2022-23 Budget Adoption. . . . . . . . . . . . . . . . . . . . . . . . June
First Interim Report

Interim Report Purpose:

- The First Interim Report represents the District’s first official revision to the District’s 2021-22 Adopted Budget
- The First Interim Report includes actual financial information through October 31, 2021 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 2021 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 2021-22 through 2025-26
  - Provided to assist in development of 2022-23 State Budget
- In recognition of the volatility surrounding economic projections due to the COVID-19 pandemic, the LAO provided one “main” projection with several caveats
Observations of Main Outlook

- Covers 2021-22 through 2025-26
- There remains significant uncertainty impacting forecasts
- LAO estimating that revenues will increase by over $28 billion from budget projections across 2020-21 and 2021-22
- LAO projecting an operating surplus of $31 billion in 2022-23 and no state operating deficits through 2025-26
- Underlying this growth are dramatic increases in several measures of economic activity
  - Retail sales have posted double digit growth during 2021
  - Stock prices have doubled from the pre-pandemic low of last spring
  - Several major corporations have reported record earnings driving increased Corporate Income Tax collections
Legislative Analysts Office
November 2021 Fiscal Outlook

Observations of Main Outlook

- Cautions there remains significant uncertainty impacting forecasts
  - California has recovered approximately 67% of the jobs lost in March and April of 2020
  - Significant sectors of the economy such as Leisure and Hospitality have not yet recovered
- Inflation at least a temporary concern – may cause stock market volatility and negatively impact 2022-23 State Capital Gains
State Revenues Higher Than Expected

Figure 2

Rapid Rise in Revenue Collections in Recent Months
Rolling 12-Month Total Collections From Income, Sales, and Corporation Taxes

During the 12-month period ending in September 2021, tax collections grew at an annual rate of 30 percent, the fastest rate in at least four decades.

Source: LAO The 2022-23 Budget: California’s Fiscal Outlook
Significant Estimated Surplus in 2022-23, but Smaller Share Is Ongoing...

Estimated Surplus in 2022-23

- **$31 Billion**

Smaller General Fund Operating Surplus

- 2022-23: $31 Billion
- 2023-24: $5 Billion
- 2024-25: $3 Billion
- 2025-26: $3 Billion

Source: LAO The 2022-23 Budget: California’s Fiscal Outlook
Projected Inflation

Source: LAO The 2022-23 Budget: California’s Fiscal Outlook
Main Outlook Scenario – Education Funding

- Due to stronger than anticipated revenues for 2020-21 and 2021-22 the Proposition 98 guarantee is expected to yield additional one-time funding of $8.2 billion in the current year and $2 billion for the 2020-21 fiscal year
  - These will provide the Legislature with a projected $10.2 billion in discretionary one-time Proposition 98 funding in the 2022-23 Budget
- In addition, Proposition 98 is expected to grow by $11.6 billion in 2022-23
- In line with inflation, the LAO is also projecting a statutory COLA of 5.35%
  - After factoring the cost of the COLA and other adjustments, the LAO is projecting the Legislature will have approximately $9.5 billion in discretionary ongoing Proposition 98 funding in 2022-23.
Main Outlook Scenario – Education Funding

- While we would advocate that the additional ongoing money be used to:
  - Increase the Local Control Funding Formula (LCFF) Base
  - Increase ongoing support for Special Education
  - Increase ongoing support to relieve pension costs
- Legislature ultimately decides how to allocate Proposition 98 funding
Prop 98 Funding

LAO Forecast (In Billions)

Source: LAO The 2022-23 Budget: California’s Fiscal Outlook
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 and Federal one-time funding
- Districtwide Enrollment
- State revenues very volatile
  - Heavily dependent on high income earners driven largely by capital gains from the stock market
  - Inflation at least a temporary concern – may cause stock market volatility and negatively impact 2022-23 State Capital Gains
- Impact of ongoing pension increases
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 $1,808/ADA below statewide average for Unified School Districts statewide. Impact $63.4 million……
2021-22 Budget Anomalies

Summary of New One-time funding:

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded Learning Opportunities</td>
<td>$22,438,520</td>
</tr>
<tr>
<td>In-Person Instruction</td>
<td>$12,383,580</td>
</tr>
<tr>
<td>ESSER II</td>
<td>$8,171,292</td>
</tr>
<tr>
<td>ESSER III</td>
<td>$18,364,727</td>
</tr>
<tr>
<td>Total</td>
<td>$61,358,119</td>
</tr>
</tbody>
</table>

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…
Enrollment Trends (TK-12)

Sources: DataQuest, California Department of Education CBEDS Enrollment and IUSD Weekly Enrollment Reports for First Week of October
## 2021-22 First Interim Assumptions

<table>
<thead>
<tr>
<th>Description</th>
<th>2021-22 Projected</th>
<th>2022-23 Projected</th>
<th>2023-24 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADA</td>
<td>35,087</td>
<td>35,129</td>
<td>35,187</td>
</tr>
<tr>
<td>LCFF Funding per student</td>
<td>9,665</td>
<td>9,904</td>
<td>10,224</td>
</tr>
<tr>
<td>Property Tax Increases</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Salary Increases (Ongoing)</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Salary Increases (One-time)*</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Step &amp; Column Increases</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Health Insurance Contributions</td>
<td>11,015</td>
<td>11,015</td>
<td>11,015</td>
</tr>
<tr>
<td>Utility Increases</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>District Reserve Level</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>
## 2021-22 Budget & Multiyear Projections
### Unrestricted General Fund

<table>
<thead>
<tr>
<th></th>
<th>2021-22 Projected</th>
<th>2022-23 Projected</th>
<th>2023-24 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$357,501,787</td>
<td>$366,956,785</td>
<td>$379,195,553</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>($291,353,712)</td>
<td>($287,979,415)</td>
<td>($292,721,708)</td>
</tr>
<tr>
<td><strong>EXCESS (DEFICIENCY)</strong></td>
<td>$66,148,075</td>
<td>$78,977,370</td>
<td>$86,473,845</td>
</tr>
<tr>
<td><strong>Other Sources/(Uses)</strong></td>
<td>($69,552,313)</td>
<td>($67,296,637)</td>
<td>($69,273,773)</td>
</tr>
<tr>
<td><strong>Net Increase/(Decrease)</strong></td>
<td>($3,404,238)</td>
<td>$11,680,733</td>
<td>$17,200,072</td>
</tr>
<tr>
<td><strong>Beginning Balance, July 1</strong></td>
<td>$48,534,125</td>
<td>$45,129,887</td>
<td>$56,810,620</td>
</tr>
<tr>
<td><strong>Ending Balance, June 30</strong></td>
<td>$45,129,887</td>
<td>$56,810,620</td>
<td>$74,010,692</td>
</tr>
</tbody>
</table>
## 2021-22 Budget & Multiyear Projections

### Components of Ending Fund Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>2021-22 Projected</th>
<th>2022-23 Projected</th>
<th>2023-24 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Ending Fund Balance</td>
<td>$45,129,887</td>
<td>$56,810,620</td>
<td>$74,010,692</td>
</tr>
<tr>
<td><em>Components of Ending Fund Balance:</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Cash/Stores</td>
<td>$350,000</td>
<td>$350,000</td>
<td>$350,000</td>
</tr>
<tr>
<td>State Required Reserve</td>
<td>$10,524,000</td>
<td>$8,772,763</td>
<td>$8,921,775</td>
</tr>
<tr>
<td>Contingency Reserve</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Reserve for 2022-23 LCAP</td>
<td>$8,000,000</td>
<td>$8,000,000</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Reserve for Charter ADA Loss</td>
<td>$2,068,000</td>
<td>$2,068,000</td>
<td>$2,068,000</td>
</tr>
<tr>
<td>Other Assigned</td>
<td>$19,187,887</td>
<td>$32,619,857</td>
<td>$49,670,917</td>
</tr>
</tbody>
</table>
2021-22 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
Thank You!