



Irvine Unified School District

# Second Interim Report

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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, 2022, 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

- ▶ State revenues from Personal Income Tax, Sales and Use Tax and Corporate Income Tax have increased dramatically from what was budgeted in 2020-21 and 2021-22
- ▶ With the increase in revenue, the Governor's Budget Proposal for K-12 includes an increase of \$16 billion
- ▶ While significant, a large share of the new funding is tied to categorical programs, leaving fewer resources to address increased costs associated with soaring inflation and rising pension obligations
- ▶ Reason for optimism May Revise will be better than Governor's January Budget Proposal
- ▶ Governor's revenue projections much more conservative than the Legislative Analyst's Office (LAO)
- ▶ Higher revenues generate more funding for Proposition 98; K-14



# State Economy- Proposition 98

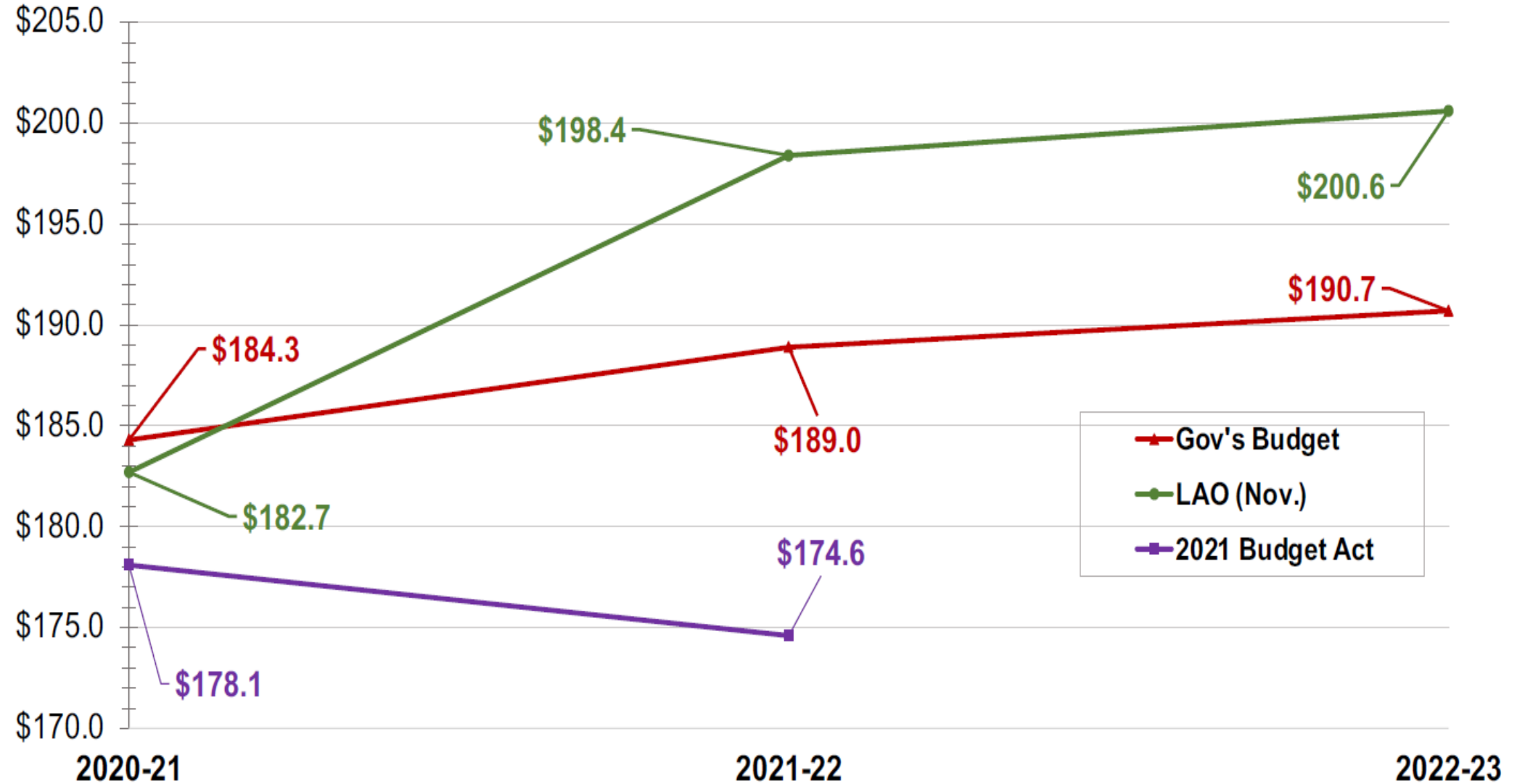
- ▶ Due to stronger than anticipated revenues for 2020-21 and 2021-22 the Legislative Analysts Office projected Proposition 98 guarantee to yield additional one-time funding of \$8.2 billion in the current year and \$2 billion for the 2020-21 fiscal year
- ▶ In addition, the LAO projected Proposition 98 would grow by \$11.6 billion in 2022-23
  - ▶ Combined increase of approximately \$21.8 billion
- ▶ Governor much more conservative on revenue projections
- ▶ Governor's revenue estimates yielded additional Proposition 98 one-time funding of \$5.4 billion in the current year and \$2.5 billion for 2020-21
- ▶ In addition, the Governor's budget projects Proposition 98 will grow by \$8.3 billion in 2022-23
  - ▶ Combined increase of \$16.2 billion
- ▶ Reason for optimism that May Revise may generate more funding for Proposition 98





# State General Fund Revenues

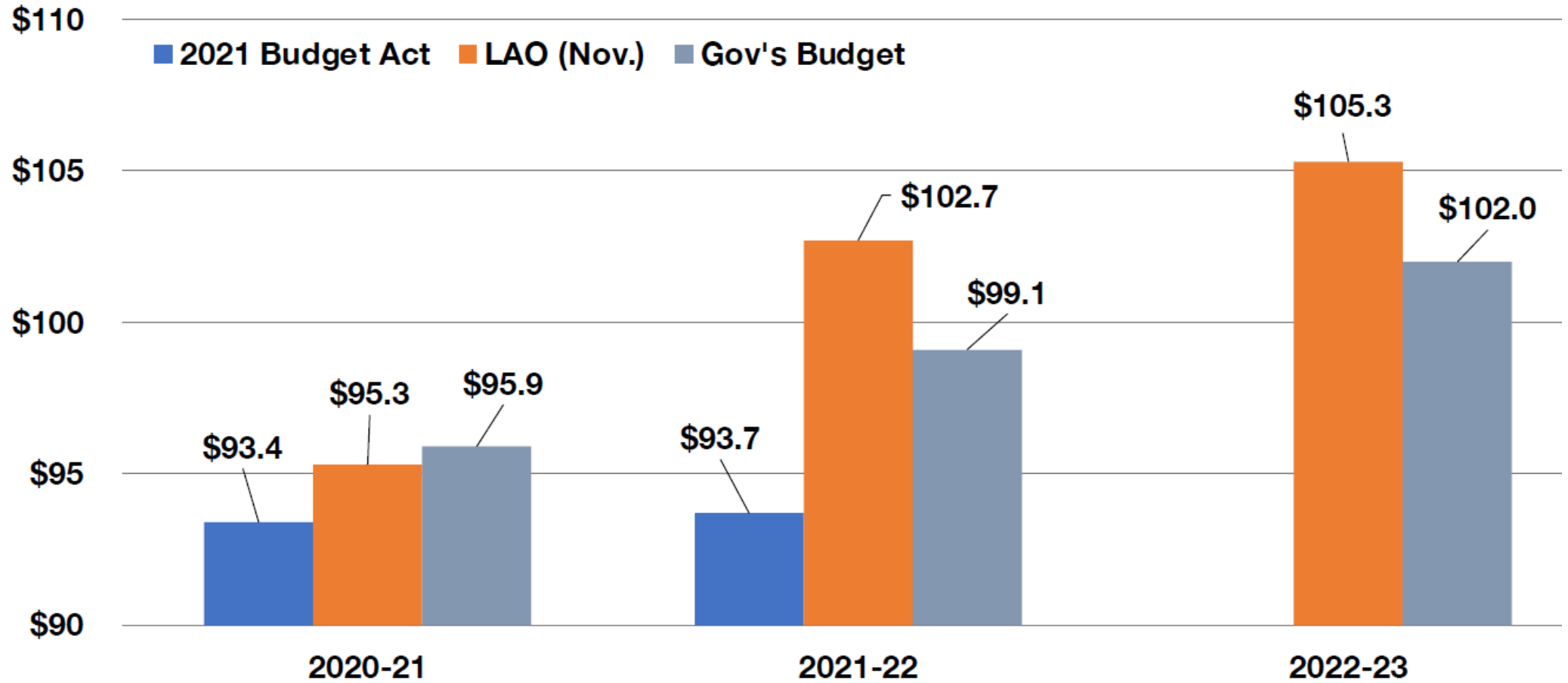
(Dollars in billions)







# Proposition 98





# 2022-23 Governor's January Proposal Highlights

- ▶ The Local Control Funding Formula (LCFF) – represents over 94% of IUSD's unrestricted funding
- ▶ Due to a spike in inflation, the Governor's January proposal includes a statutory Cost-of-Living-Adjustment (COLA) of 5.33%.
- ▶ For IUSD this represents a year-over-year ongoing increase of approximately \$18.3 million
- ▶ Special Education will receive the full COLA of 5.33% as well as an augmentation to the base funding formula – impact to IUSD approximately \$3.7 million
- ▶ After accounting for annual increases in expenditures related to step and column, pension costs, and special education we estimate that we will have between \$9.3 and \$13 million in ongoing funding available for allocation





# 2022-23 Governor's January Proposal Highlights

- ▶ The Governor's 2022-23 January Budget proposal includes funding augmentations to several categorical programs.....
  - ▶ Expanded Learning Opportunities Program (ELOP) - \$3.4 billion ongoing
  - ▶ Child Care and Preschool - \$2.0 billion ongoing
  - ▶ Early Literacy Grants - \$700 million one-time
  - ▶ Career Pathway Programs - \$1.5 billion one-time
  - ▶ School Facilities Funding in lieu of state bond - \$2.2 billion
  - ▶ \$1.5 billion one-time funding for grants to purchase electric school buses

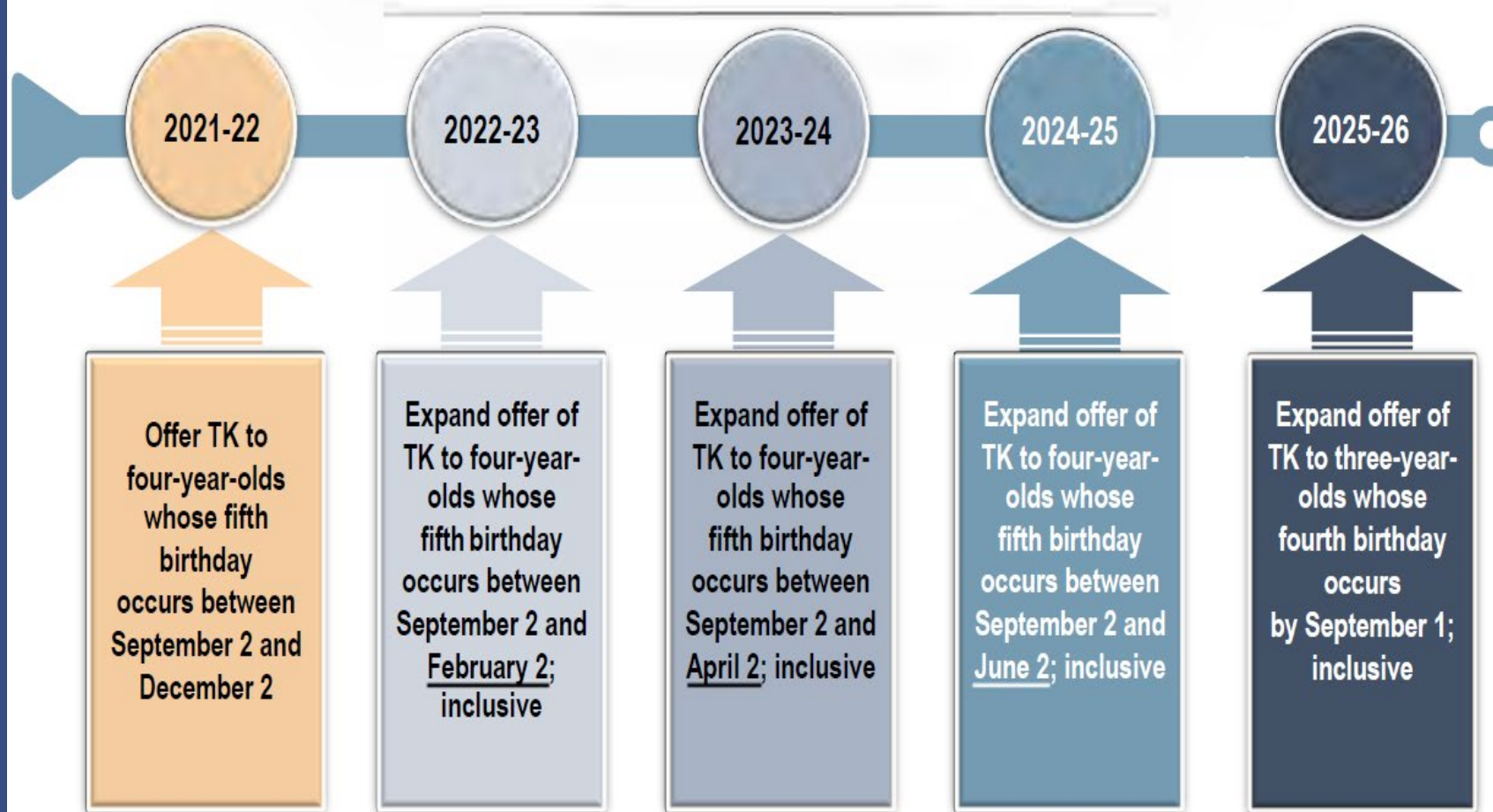






# Universal Transitional Kindergarten

## Legal Requirements of Universal TK



- The 2022-23 Budget includes \$640 million in ongoing funds due to the rebenching of Prop 98
- The 2021-22 Budget included \$200 million one-time planning grant funds and \$490 million in facilities funds
- IUSD does not qualify for any facility funding (funding heavily weighted to low income areas)

Education Code Sections (EC §) 48000(c)(1)(C)—(G)



# Ongoing Challenges

- ▶ 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
- ▶ 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
- ▶ Uncertainty remains how the economy will fully return after COVID....



# School Employer Pension Costs

- Governor's budget does not include any relief for school employers in 2022-23
- Impact of previous employer rate relief from the 2020 Budget Act ends after 2021-22

## CalSTRS

| Fiscal Year | Contribution Rate* |
|-------------|--------------------|
| 2021-22     | 16.92%** (-2.18)   |
| 2022-23     | 19.1%              |
| 2023-24     | 19.1%              |

## CalPERS

| Fiscal Year | Contribution Rate* | Latest Projection*** |
|-------------|--------------------|----------------------|
| 2021-22     | 22.91%** (-2.16)   | N/A                  |
| 2022-23     | 26.10%             | 25.95%               |
| 2023-24     | 27.01%             | 25.78%               |

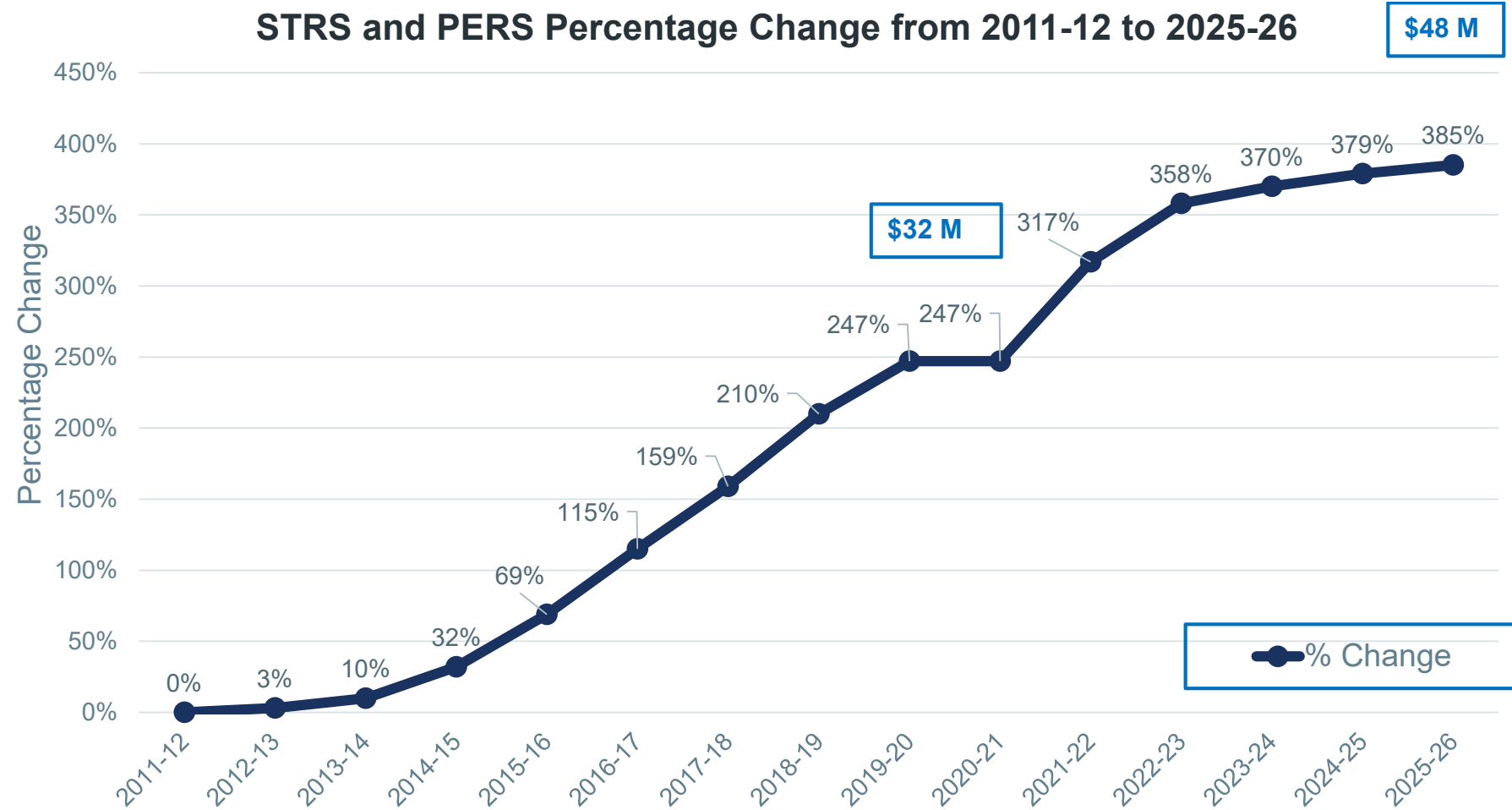
\* Latest projected rates based on official board action

\*\* Reflects rate relief provided by state through 2020 Budget Act

\*\*\* Reflects CalPERS recent adoption of 6.8% discount rate and 2020-21 investment return of 21.3%

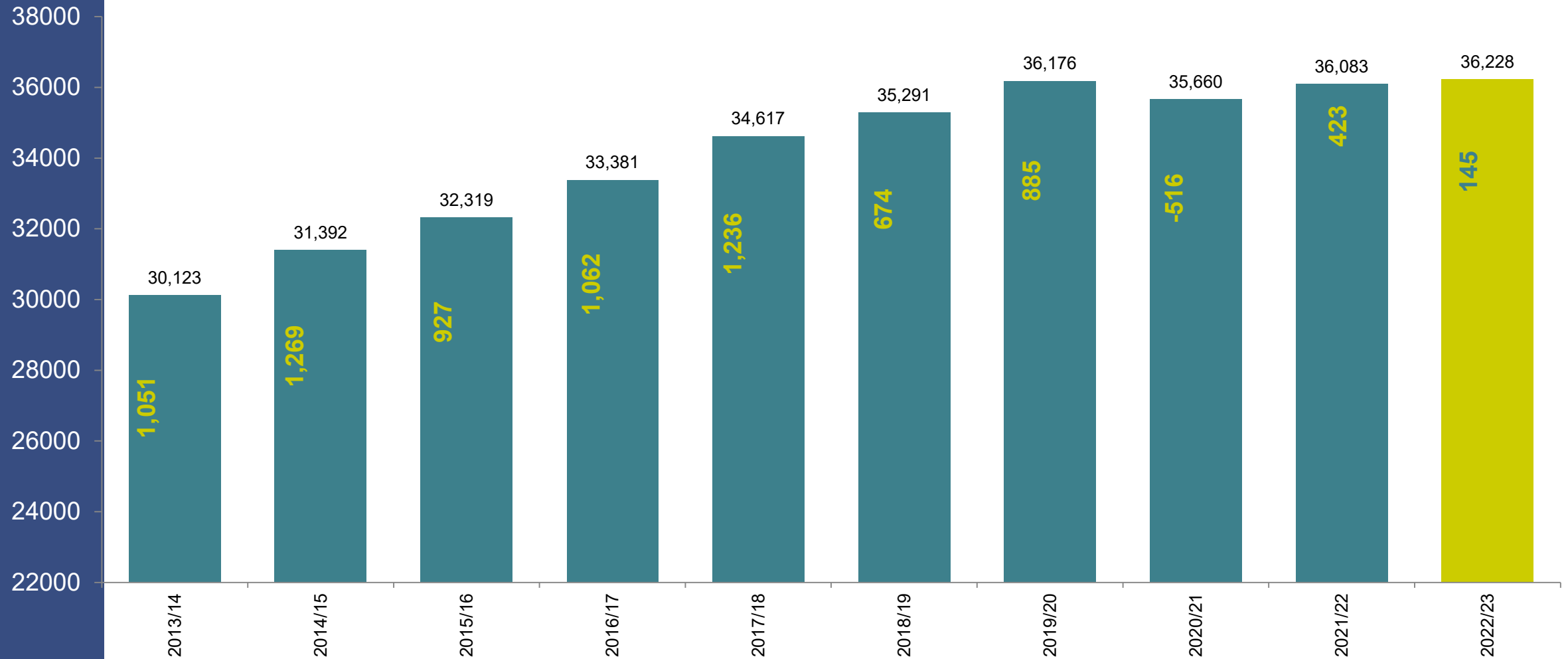


# STRS & PERS Projected Increases





# IUSD Enrollment Trends (TK-12)





# 2021-22 Budget Anomalies

## Summary of New One-time funding:

|                                 |                     |
|---------------------------------|---------------------|
| Expanded Learning Opportunities | \$22,438,520        |
| In-Person Instruction           | \$12,383,580        |
| ESSER II                        | \$ 8,186,021        |
| ESSER III                       | <u>\$18,364,727</u> |
| <b>Total:</b>                   | <b>\$61,405,952</b> |



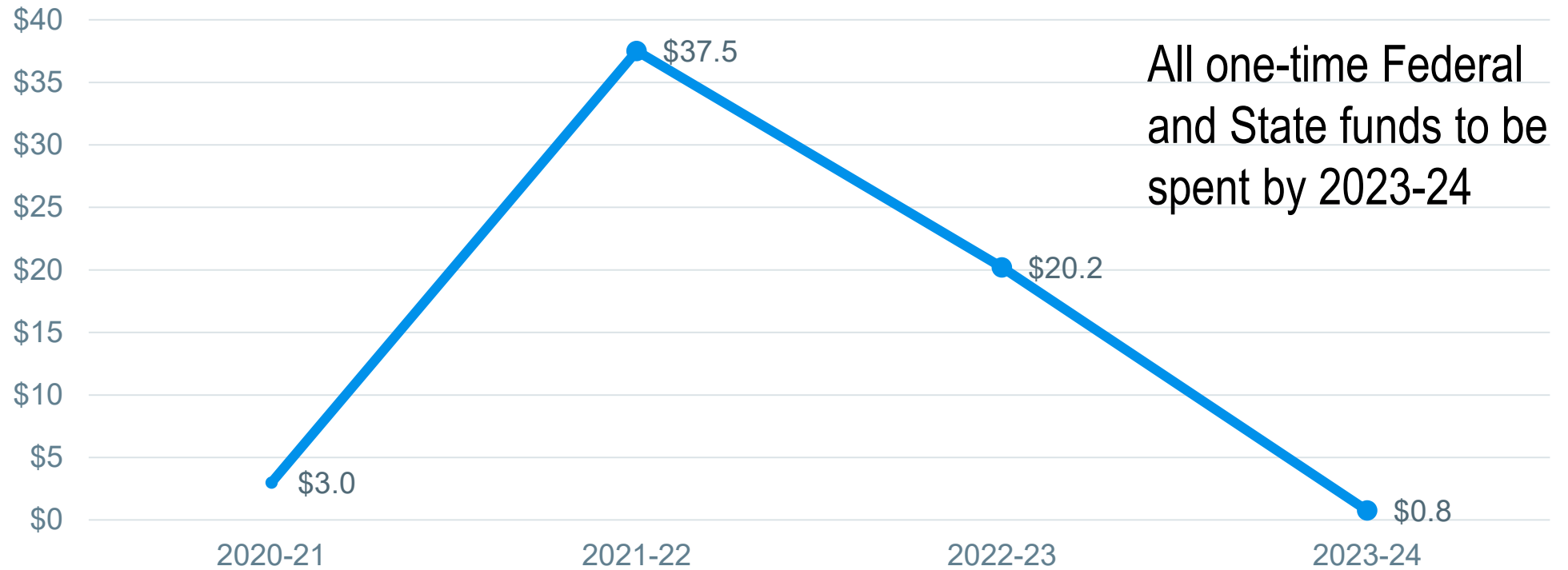
**Given the significance of the one-time funding, districts will need to ensure an exit strategy as one-time funds cannot be used to fund ongoing programs and/or costs...**





# Timeline of Stimulus Funds Expenditures

**Stimulus Fund Expenditures  
In Millions**





# Next Steps

- ▶ Budget Process: February - June
  - ▶ 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 2022-23 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
  - ▶ May 5 – Budget LCAP Board Study Session
  - ▶ June 7 – Board meeting public hearing on LCAP and Budget
  - ▶ June 28 – Adoption of LCAP and Budget



# 2021-22 Second Interim Assumptions

|                                | 2021-22<br>Projected | 2022-23<br>Projected | 2023-24<br>Projected |
|--------------------------------|----------------------|----------------------|----------------------|
| ADA (funded)                   | 35,036               | 35,067               | 35,125               |
| LCFF Funding per student       | \$9,661              | \$10,171             | \$10,549             |
| Property Tax Increases         | 4%                   | 4%                   | 4%                   |
| Salary Increases (On-going)    | 2.9%                 |                      |                      |
| Salary Increases (One-time)    | 1.45%                |                      |                      |
| Step & Column Increases        | 2%                   | 2%                   | 2%                   |
| Health Insurance Contributions | \$11,600             | \$11,600             | \$11,600             |
| Utility Increases              | 4%                   | 4%                   | 4%                   |
| District Reserve Level         | 2%                   | 2%                   | 2%                   |
| Contingency Reserve            | \$5 Million          | \$5 Million          | \$5 Million          |



# 2021-22 Second Interim Financial Comparison

## General Fund Unrestricted Balance

| Description               | 2021-22<br>1 <sup>st</sup> Interim | 2021-22<br>2 <sup>nd</sup> Interim | Variance              |
|---------------------------|------------------------------------|------------------------------------|-----------------------|
| Total Revenues            | \$357,501,787                      | \$356,811,350                      | (\$690,437)           |
| Total Expenditures        | (\$291,353,712)                    | (\$302,220,578)                    | (\$10,866,866)        |
| EXCESS (DEFICIENCY)       | \$66,148,075                       | \$54,590,772                       | (\$11,577,303)        |
| Total Other Sources/Uses  | (\$69,552,313)                     | (\$75,783,402)                     | (\$6,231,089)         |
| NET INCREASE (DECREASE)   | (\$3,404,238)                      | (\$21,192,630)                     | (\$17,788,392)        |
| Beginning Balance, July 1 | \$48,534,125                       | \$48,534,125                       |                       |
| Ending Balance, June 30   | <u>\$45,129,887</u>                | <u>\$27,341,495</u>                | <u>(\$17,788,392)</u> |



# 2020-21 Second Interim Financial Comparison

## Components of Unrestricted Ending Fund Balance

| Description                                      | 2021-22<br>1 <sup>st</sup> Interim | 2021-22<br>2 <sup>nd</sup> Interim | Variance       |
|--|------------------------------------|------------------------------------|----------------|
| Estimated Ending Fund Balance                    | \$45,129,887                       | \$27,341,495                       | (\$17,788,392) |
| <b><u>Components of Ending Fund Balance:</u></b> |                                    |                                    |                |
| Revolving Cash/Stores                            | \$350,000                          | \$350,000                          |                |
| State Required Reserve                           | \$10,524,000                       | \$11,002,000                       | \$478,000      |
| Contingency Reserve                              | \$5,000,000                        | \$5,000,000                        |                |
| Reserve for 2022-23 LCAP                         | \$8,000,000                        | \$8,000,000                        |                |
| Reserve for Charter ADA Loss                     | \$2,068,000                        | \$2,068,000                        |                |
| Other Assigned                                   | \$19,187,887                       | \$921,495                          | (\$18,266,392) |



# Unrestricted General Fund Financial Outlook

| Description               | 2021-22<br>Projected | 2022-23<br>Projected | 2023-24<br>Projected |
|---------------------------|----------------------|----------------------|----------------------|
| Total Revenues            | \$356,811,350        | \$375,789,279        | \$390,208,175        |
| Total Expenditures        | (\$302,220,578)      | (\$296,387,860)      | (\$301,269,484)      |
| EXCESS (DEFICIENCY)       | \$54,590,772         | \$79,401,419         | \$88,938,691         |
| Total Other Sources/Uses  | (\$75,783,402)       | (\$66,314,483)       | (67,951,038)         |
| NET INCREASE (DECREASE)   | (\$21,192,630)       | \$13,086,936         | \$20,987,653         |
| Beginning Balance, July 1 | \$48,534,125         | \$27,341,495         | \$40,428,431         |
| Ending Balance, June 30   | <u>\$27,341,495</u>  | <u>\$40,428,431</u>  | <u>\$61,416,084</u>  |





# 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!