

Irvine Unified School District First Interim Report



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December 13, 2022

Financial Reporting Cycle

- ✓ State Budget Adoption July
- ✓ 2021-22 Unaudited Actuals September
- ✓ First Interim Report 2022-23 December
- Governor's 2023-24 Budget Proposal January
- Second Interim Report 2022-23 March
- 2023-24 Budget LCAP Study Session April
- IUSD 2023-24 Budget Adoption..... June



First Interim Report



Interim Report Purpose:

- ❑ The First Interim Report represents the District's first official revision to the District's 2022-23 Adopted Budget
- ❑ The First Interim Report includes actual financial information through October 31, 2022 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 2022 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 2022-23 through 2026-27
 - **The Outlook does not constitute a formal budget proposal....**
 - Used to assist the Legislature and Administration in budget development
- *In recognition of the volatility surrounding economic projections due to the COVID – 19 pandemic, the war in the Ukraine, and extremely high inflation, LAO provided one “main” projection with several caveats*

Legislative Analysts Office

November 2022 Fiscal Outlook



Observations of Main Outlook

- ❑ U.S. economy experienced rapid expansion in the summer of 2020 that extended through 2021....driven mostly by pandemic-related federal stimulus
- ❑ With ample resources, low unemployment and supply chain issues, businesses struggled to meet consumer demands driving prices up over 8%, more than three times the norm of the last three decades
- ❑ Higher interest rates negatively impact economic activity by increasing borrowing costs for home buyers, consumers, and businesses, and negatively impacts stock market which generate Capital Gains....
- ❑ While the LAO is not predicting a recession, they are forecasting a downturn which negatively impacts state revenue projections
 - ❑ Home sales have dropped by one-third
 - ❑ Stocks are down 20%
 - ❑ Car sales are at the lowest level in over a decade

Legislative Analysts Office

November 2022 Fiscal Outlook



Observations of Main Outlook

- ❑ There remains significant uncertainty impacting forecasts most notably driven by inflation and the actions of the Federal Reserve
- ❑ The LAO's Outlook does predict a downturn in the near-term with corresponding state deficits
- ❑ Revenue projections reflected in 2021-22 through 2023-24 were reduced overall by approximately \$42 billion
- ❑ Majority of state revenues come from the “Big Three” – Personal Income, Sales, and Corporate Taxes
- ❑ Most important for Proposition 98....

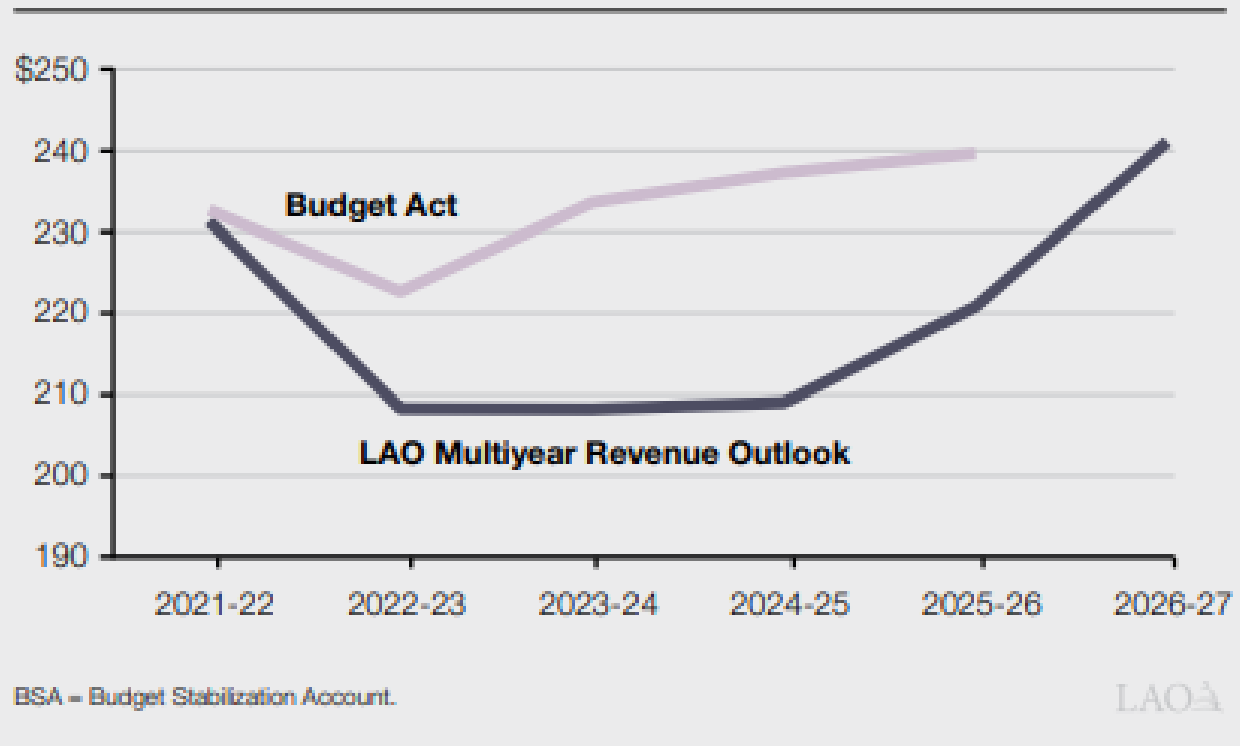
“Big Three Tax Estimates in billions			Change	
	2022-23 State Budget	LAO Estimate	Amount	Percent
2021-22	\$215.6	\$214.3	-\$1.3	-0.6%
2022-23	\$210.0	\$195.5	-\$14.5	-7.4%
2023-24	\$220.9	\$194.3	-\$26.6	-13.7%
Three Year Totals:	\$646.5	\$604.1	-\$42.4	-7.0%

Projected State Revenues

Figure 4

Under Our Outlook, Revenues Decline, Stabilize, and Then Grow

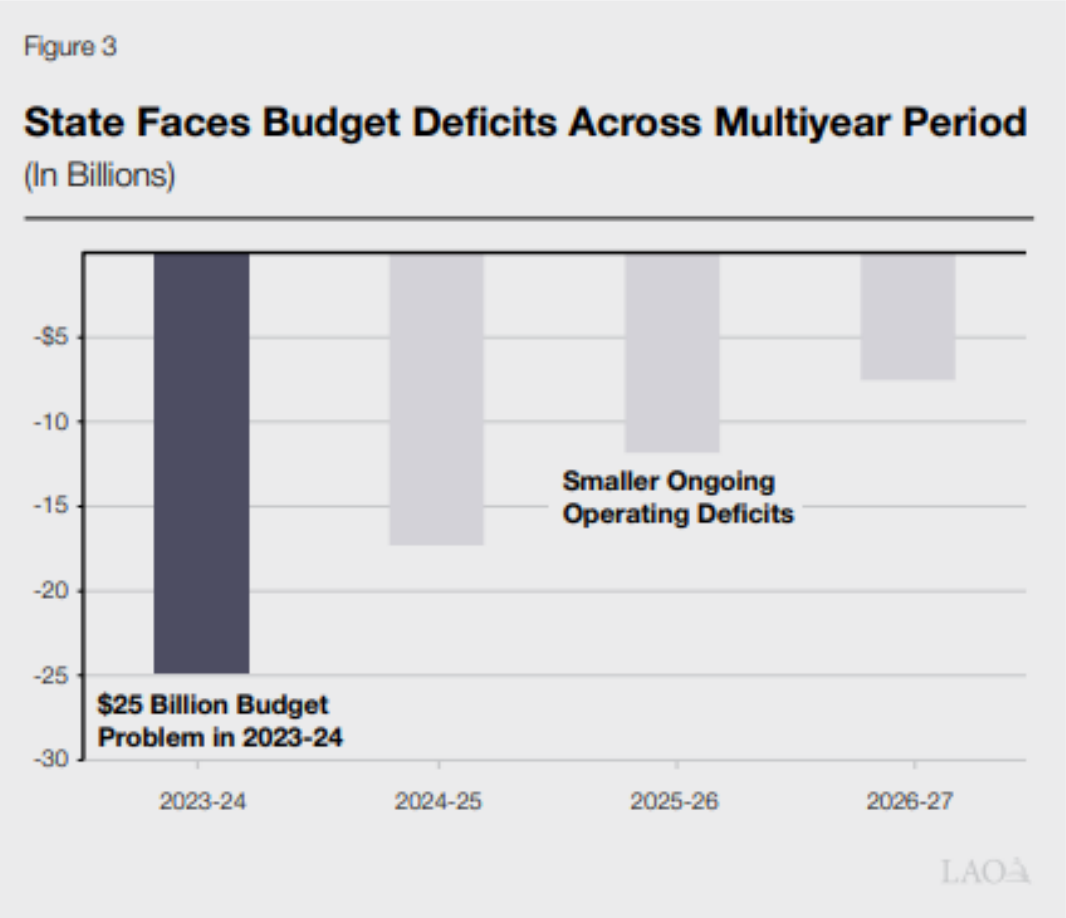
General Fund Revenues and Transfers Excluding BSA Deposits (In Billions)



Source: LAO The 2023-24 Budget: California's Fiscal Outlook



Projected State Operating Deficits



Source: LAO The 2022-23 Budget: California's Fiscal Outlook

LAO November 2022 Fiscal Outlook Proposition 98

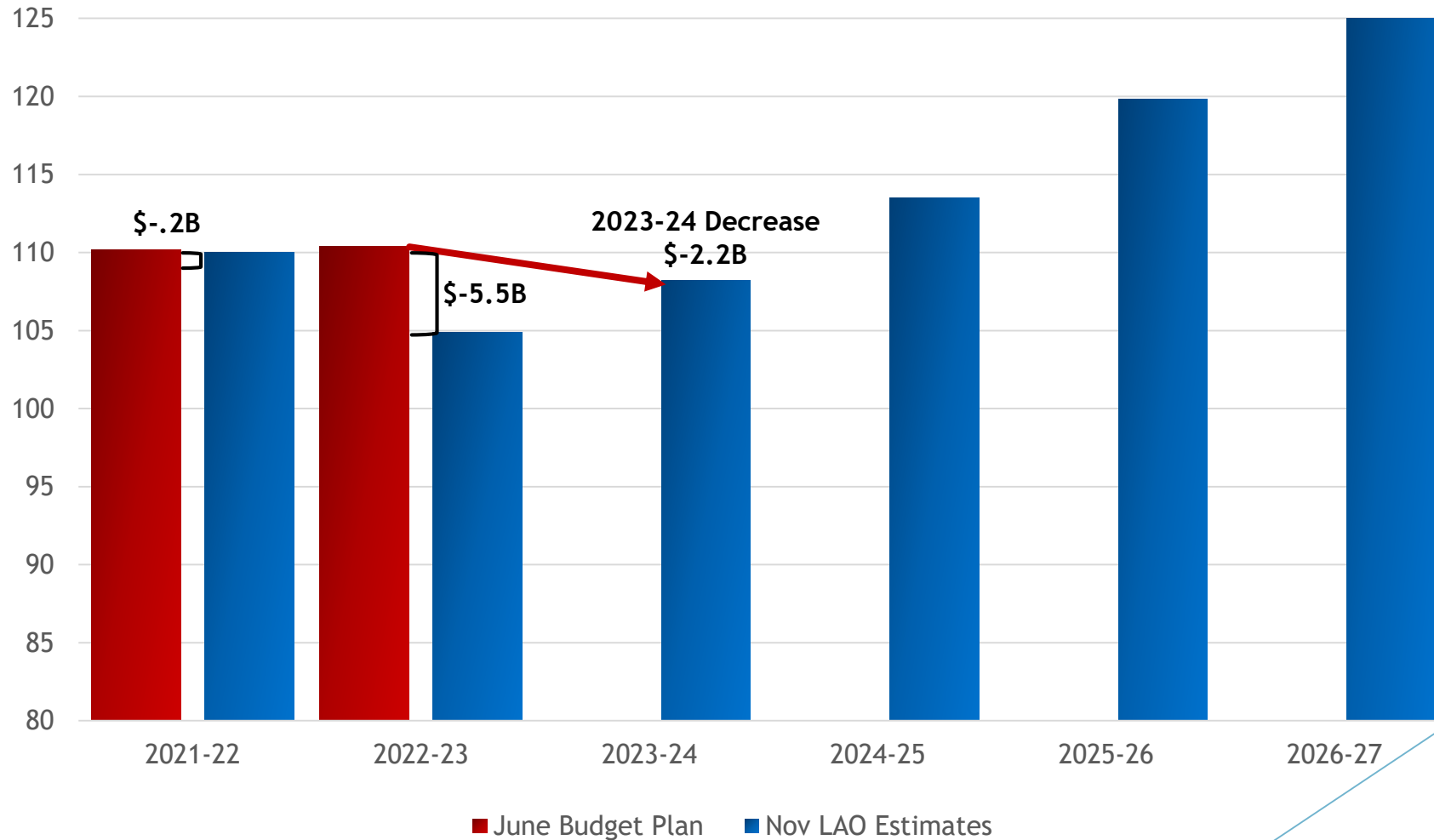


Main Outlook Scenario – Education Funding

- ❑ Proposition 98 is projected to be funded Under Test 1 throughout the projection cycle
 - ❑ Directly impacted by State revenues
 - ❑ Receive approximately 40% of State General Fund Revenues
- ❑ Proposition 98 guarantee typically changes from the level forecast in the enacted budget as revenues are collected
- ❑ The guarantee is updated for a given fiscal year until the year is officially closed out
- ❑ Due to lower than budgeted revenues and estimates, the Proposition 98 guarantee has been lowered for 2021-22 and 2022-23
- ❑ Although guarantee lowered there are no projected reductions proposed at this time
- ❑ The new forecast for 2023-24 also forecast a reduction in state revenues further reducing the 2023-24 guarantee

Prop 98 Funding

LAO Forecast (In Billions)



Source: LAO The 2022 California's Fiscal Outlook



LAO November 2022 Fiscal Outlook Proposition 98



Main Outlook Scenario – Education Funding

- ❑ With the minimum guarantee dropping in the current year by approximately \$5.5 billion how are there no reductions?
 - ❑ Savings from Local Control Funding Formula Allocations
 - ❑ No longer requirement to make deposit into Proposition 98 Reserve
- ❑ In addition and somewhat counterintuitive, the Proposition 98 Cost-of-Living Adjustment (COLA) for 2023-24 is currently estimated at 8.71%
 - ❑ Driven by inflation over 2022 and 2023 for government agencies, represents largest COLA since 1979
 - ❑ Estimated Cost of approximately \$7.9 billion
 - ❑ LAO projects that approximately \$7.6 billion will be available under Proposition 98
- ❑ Available funding includes:
 - ❑ Elimination of approximately \$5.7 billion in one-time allocation funded with ongoing recourses
 - ❑ Elimination of pre-pandemic LCFF attendance funding adjustments of approximately \$2.7 billion

Ongoing Challenges



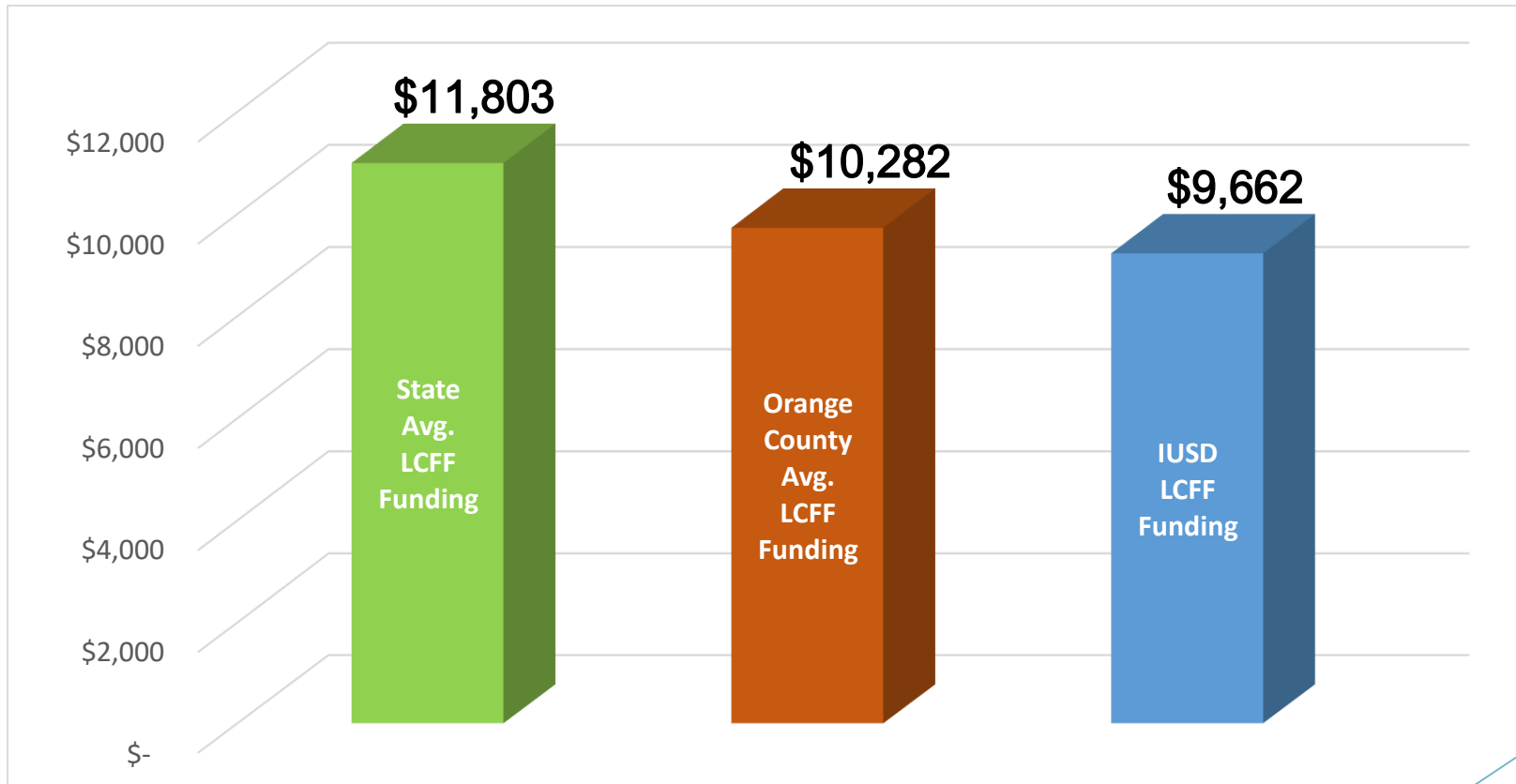
- ▶ The Local Control Funding Formula represents well over 90% of Unrestricted Revenue (for IUSD 95%), yet funding disproportionately benefits districts with high concentrations of disadvantaged students
- ▶ Large influx of State one-time funding
- ▶ Districtwide Enrollment
- ▶ State revenues very volatile
 - ▶ 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

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.



2021-22 LCFF Funding Comparison Unified School Districts



Note: IUSD funded \$2,141ADA below statewide average for Unified School Districts statewide. Impact \$77 million.....



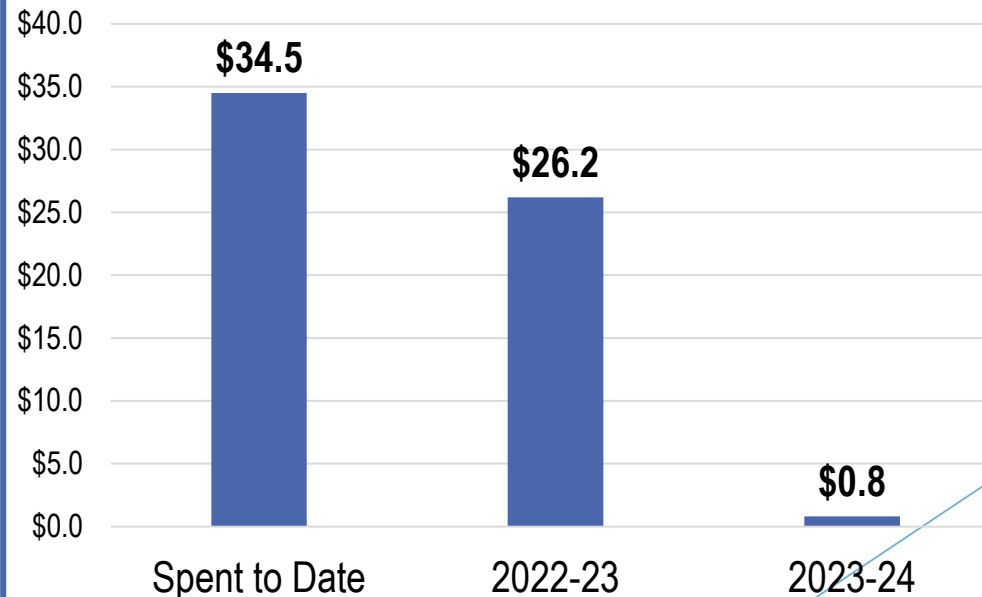
One-time Federal and State Funds

In response to the COVID-19 Pandemic, District received a series of one-time Federal and State Funds in 2020-21 and 2021-22

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	\$18,364,727
Total:	\$61,405,952

Planned Stimulus Expenditures (in Millions)



One-Time Discretionary Block Grant Arts, Music and Instructional Materials



- ▶ The 2022-23 Final State Budget includes a \$3.6 billion Discretionary Block Grant titled the Arts, Music and Instructional Materials Discretionary Block Grant
 - ▶ While not completely discretionary provides broad flexibility
 - ▶ Available for any “operational costs”
 - ▶ Can be used to obtain standards-aligned instructional materials and professional development related to arts, music and other subject areas, or materials and training related to improving school climate, develop diverse book collections, or expenses related to the COVID-19 pandemic
 - ▶ **Impact to IUSD approximately \$23 million**
 - ▶ Funds must be spent by 2025-26
 - ▶ Requires a Board approved expenditure plan
- ▶ **Not completely unrestricted, will be included in the restricted General Fund**

One-Time Learning Recovery Emergency (LRE) Block Grant

- ▶ The Final State Budget includes one-time funding of \$7.9 billion to support the LRE Block Grant
- ▶ Targeted uses include:
 - ▶ Increase instructional learning time
 - ▶ Implement or expand learning supports to close learning gaps
 - ▶ Integrate pupil supports and staff training to address barriers to learning
 - ▶ Provide access to instruction for credit-deficient pupils
 - ▶ Provide summer school or intersessional instructional programs, or taking any other action that increases/stabilizes the amount of instructional time or services
 - ▶ Integrating pupil supports to address other barriers to learning, and staff supports and training, such as the provision of health, counseling, or mental health services.....
 - ▶ There are reporting requirements
 - ▶ **Impact to IUSD approximately \$26 million**
 - ▶ Funds must be spent by 2027-28
- ▶ **Will be included in the restricted General Fund**

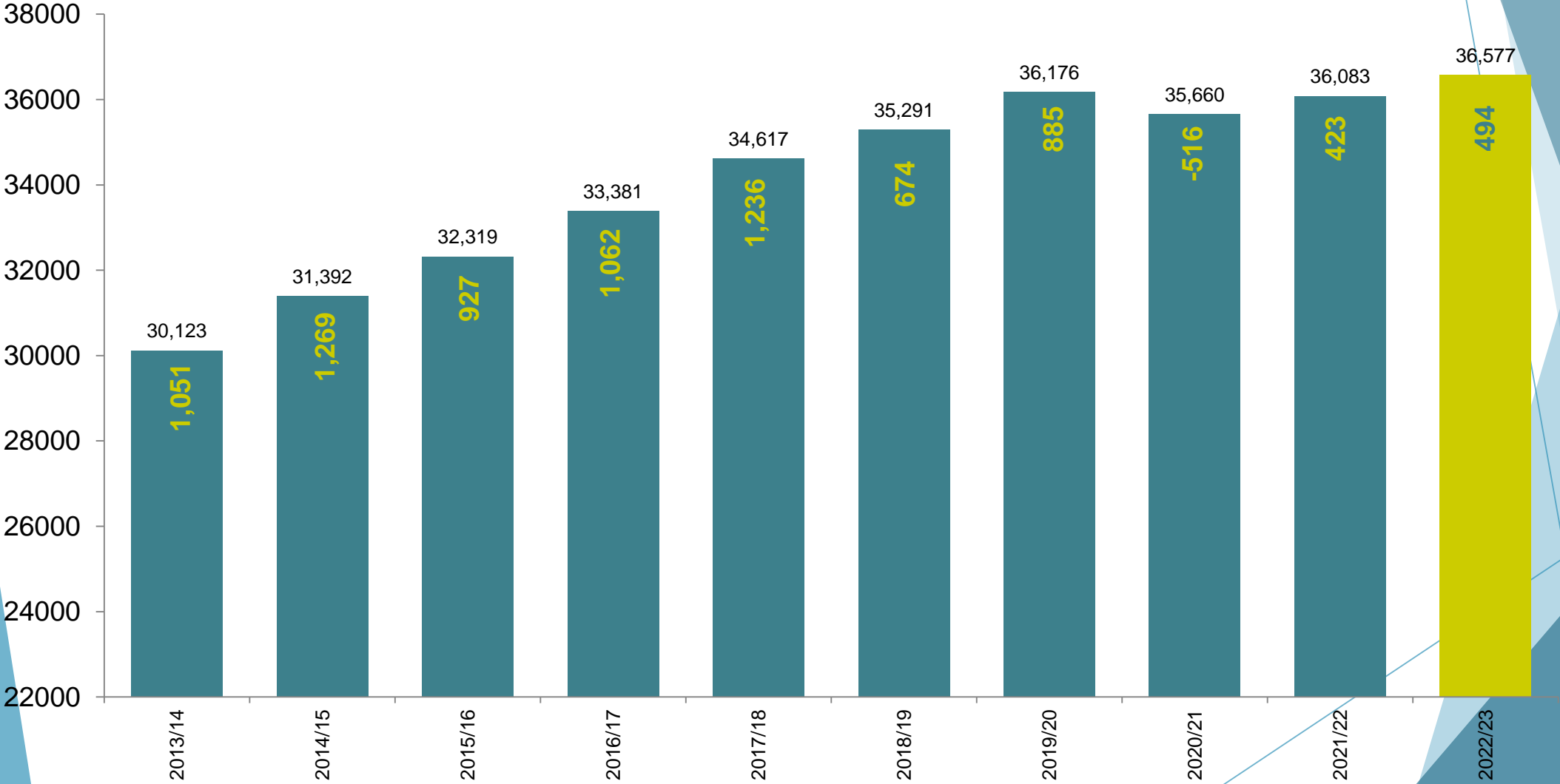


Budgeting Use of One-Time Resources

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 estimated CBEDS Enrollment for 2022-23

2022-23 First Interim Assumptions



	2022-23 Projected	2023-24 Projected	2024-25 Projected
ADA	35,421	35,786	36,163
LCFF Funding per student	\$10,977	\$11,596	\$12,087
Property Tax Increases	4%	4%	4%
Salary Increases (Ongoing)	9%		
Salary Increases (One-time)*	1%		
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%

2022-23 Budget & Multiyear Projections

Unrestricted General Fund



Unrestricted	2022-23 Projected	2023-24 Projected	2024-25 Projected
Total Revenues	\$410,286,586	\$436,682,238	\$459,177,954
Total Expenditures	(\$338,379,443)	(\$329,893,092)	(\$336,195,037)
EXCESS (DEFICIENCY)	\$71,907,143	\$106,789,146	\$122,982,917
Other Sources/(Uses)	(\$84,437,113)	(\$81,612,841)	(\$83,232,452)
Net Increase/(Decrease)	(\$12,529,970)	\$25,176,305	\$39,750,465
Beginning Balance, July 1	\$48,165,865	\$35,635,895	\$60,812,200
Ending Balance, June 30	\$35,635,895	\$60,812,200	\$100,562,665

2022-23 Budget & Multiyear Projections

Components of Ending Fund Balance



Description	2022-23 Projected	2023-24 Projected	2024-25 Projected
Estimated Ending Fund Balance	<u>\$35,635,895</u>	<u>\$60,812,200</u>	<u>\$100,562,665</u>
<i>Components of Ending Fund Balance:</i>			
Revolving Cash/Stores	\$350,000	\$350,000	\$350,000
State Required Reserve	\$11,162,000	\$10,165,559	\$10,257,213
Contingency Reserve	\$5,000,000	\$5,000,000	\$5,000,000

Reserve for 2022-23 Ongoing funds allocated in 2023-24	\$4,669,305		
Reserve for 2023-24 LCAP	\$5,300,000	\$5,300,000	\$5,300,000
Reserve for Transportation Funds	\$2,362,955	\$2,362,955	\$2,362,955
Other Assigned	\$6,791,635	\$37,633,686	\$77,292,497

2022-23 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!