



Irvine Unified School District

Second Interim Report

Presented by John Fogarty

March 14, 2023





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, 2023, 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



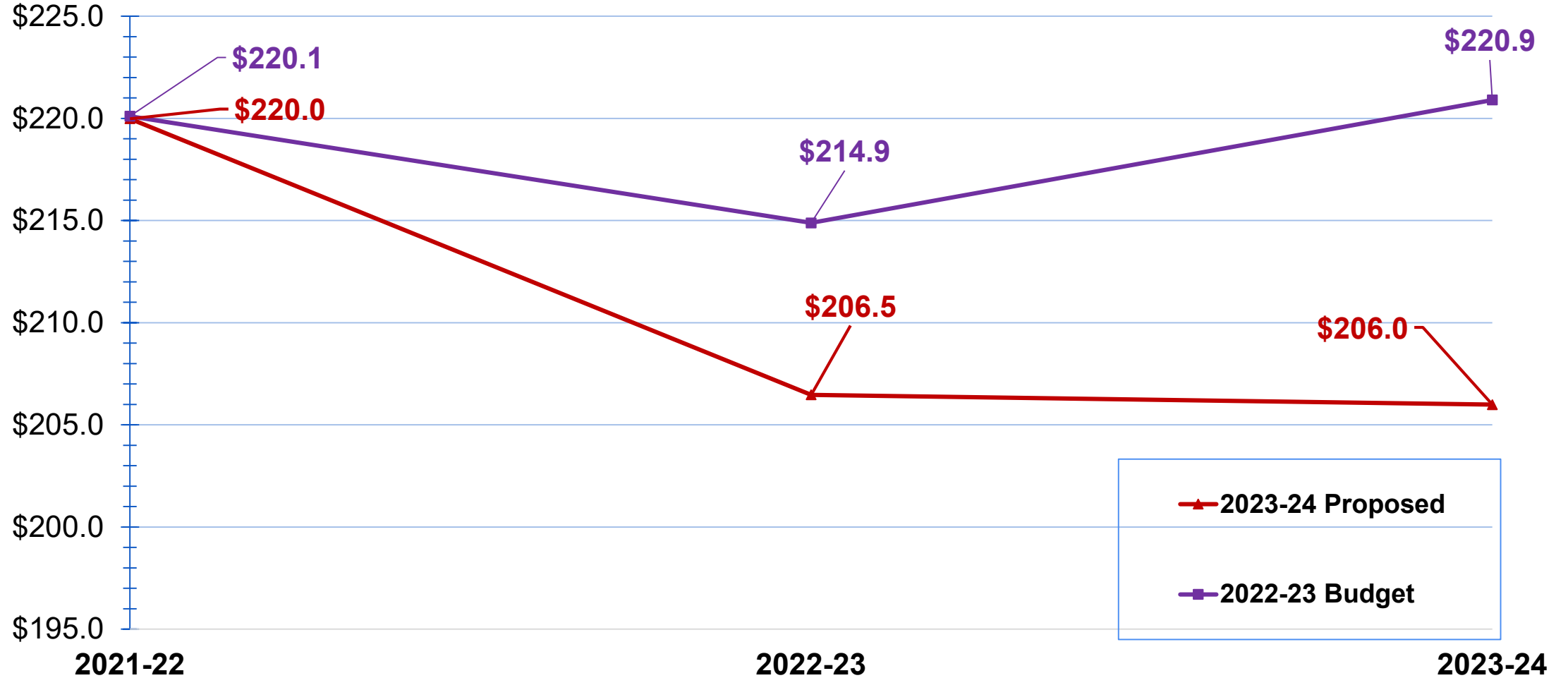
State Economy Budget Outlook For Educaiton

- ▶ 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%, leading to significant inflation
- ▶ 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 a recession is not currently forecast by the Administration, the period of unprecedented General Fund (GF) revenue growth has slowed significantly
- ▶ Citing drop in home sales, stock market declines of over 20%, and auto sales at the lowest level in over a decade, the Governor's budget projects state revenues down from what was forecast in the 2022 Budget Act creating a deficit of approximately \$30 billion



State General Fund Revenues

(Dollars in billions)





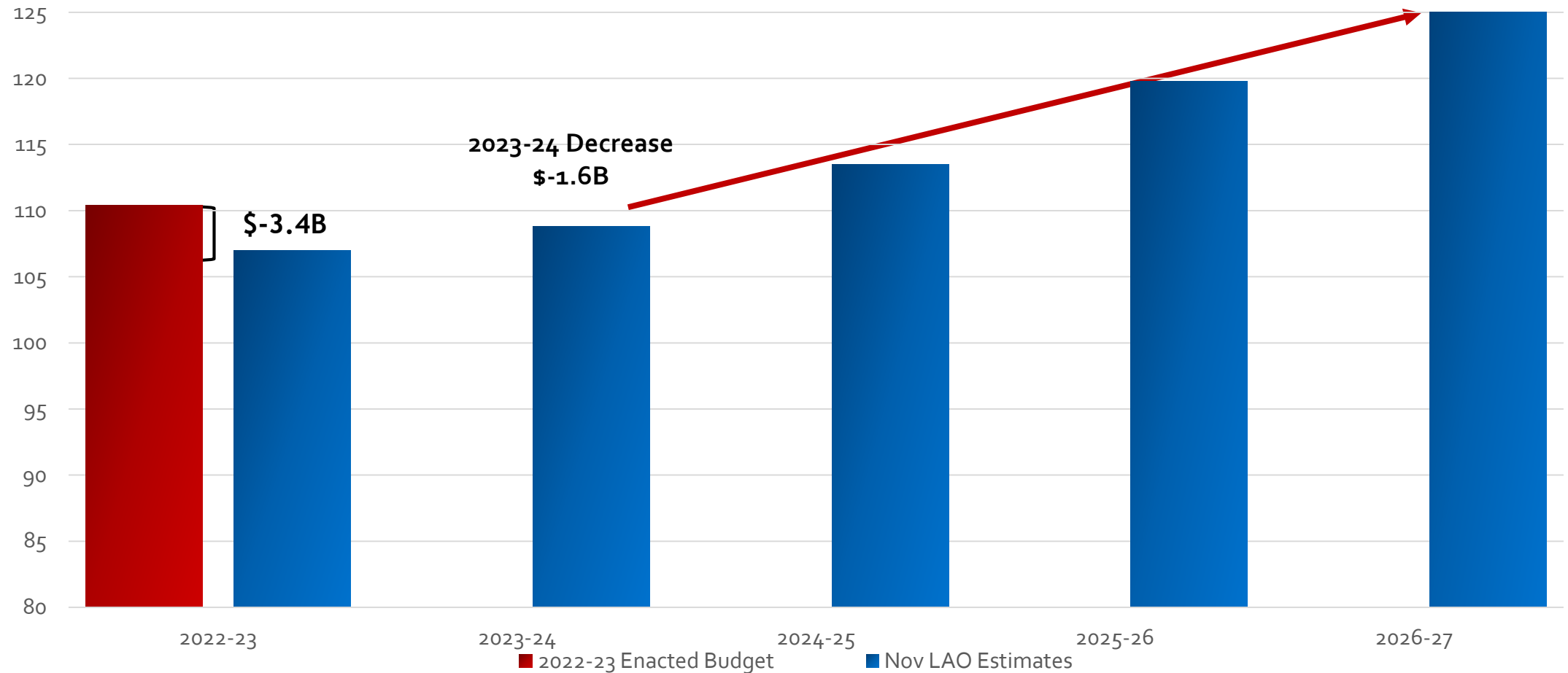
Education Funding

- Proposition 98 guarantee dictates funding for K-12 and Community Colleges
 - Receives protection from rest of State budget
 - Under Test 1 – directly impacted by state revenues, receive approximately 40% of State general fund revenues and property taxes
- Because revenues have been lowered for 2022-23 and 2023-24 Proposition 98 guarantee has declined proportionately
- Proposition 98 remains in a very good position relative to the overall State budget





Prop 98 Funding





State General Fund Revenues

- ▶ The Department of Finance recently reported that tax collections for December 2022 and January 2023 were down approximately \$3.3 billion from what was included in the Governor's January Budget Proposal

2022-23 State Tax Collections In Billions

	January 2023		2022-23 Year-to-Date	
	Forecast	Actual	Forecast	Actual
Personal Income Tax	\$15.4	\$13.5	\$65.3	\$61.8
Corporate Tax	\$2.8	\$2.2	\$16.9	\$17.1
Sales and Use Tax	\$1.5	\$1.8	\$18.9	\$18.8

- ▶ LAO is projecting a current year shortfall of \$5 billion
- ▶ Due to extreme weather, IRS extended and California adopted a filing extension for 44 counties for the 2022 tax returns until October 16, 2023.
 - ▶ Making May Revise revenue and final budget revenue picture uncertain



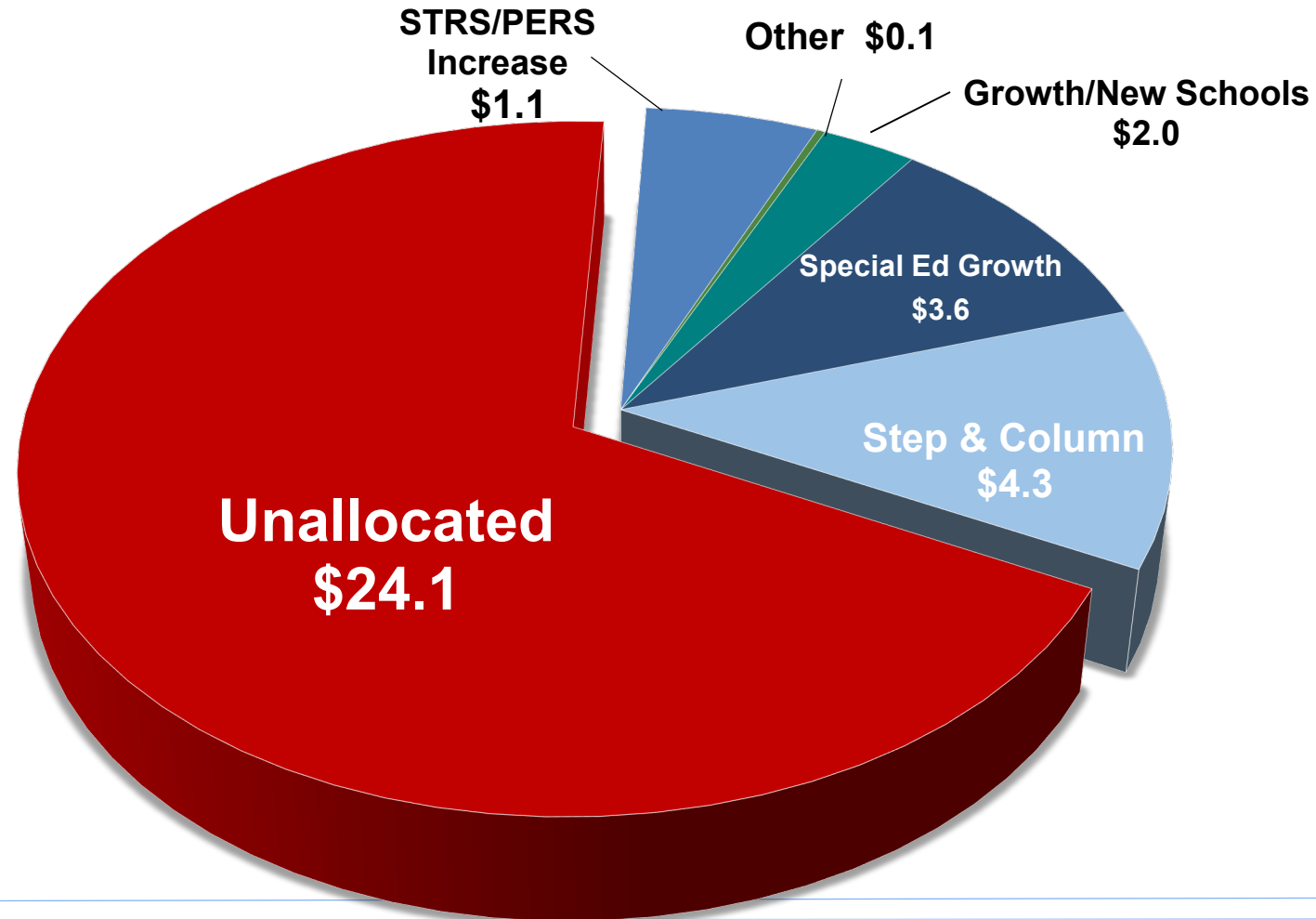
2023-24 Governor's January Proposal Highlights



- Governor's proposal essentially funds a statutory Cost-of-Living Adjustment (COLA) of 8.13% for the Local Control Funding Formula (LCFF) and most categorical programs
- The LCFF represents approximately 95% of IUSD's unrestricted funding
 - For IUSD the 8.13% COLA represents a year-over-year ongoing increase of approximately \$35.2 million
 - **Governor reduced one-time Arts and Music Discretionary Grant by \$1.2 billion in current year to assist in funding COLA**
 - **For IUSD reduces Grant by \$8 million**
- After accounting for annual increases in expenditures related to step and column, pension costs, and special education approximately \$24.1 million in ongoing funding will be available for allocation



Utilization of \$35.2 Million Ongoing Funding (in billions)





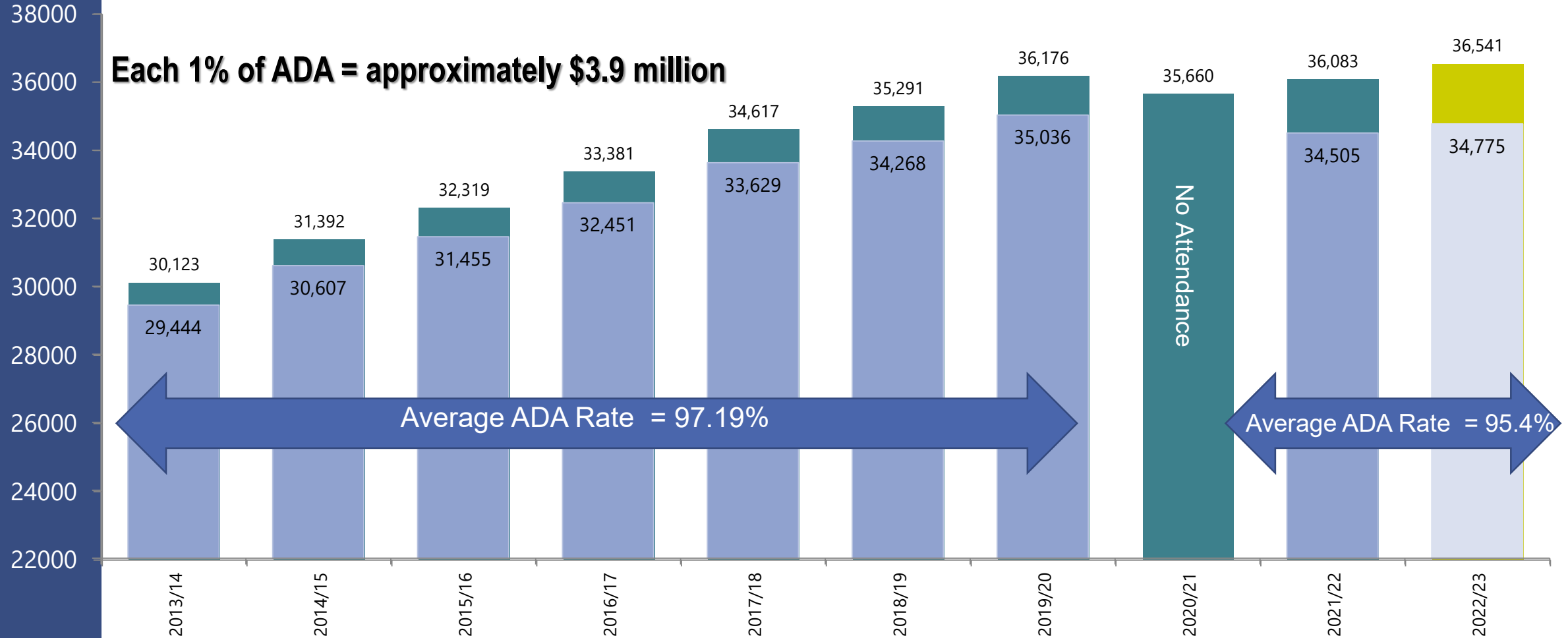
Ongoing Challenges

- 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
- Districtwide enrollment and corresponding attendance challenges/implications
- State revenues very volatile
 - Heavily dependent on high income earners driven largely by capital gains from the stock market
- Impact of ongoing pension increases
- Challenges of one-time funds
- Supply chain issues
- Staffing challenges





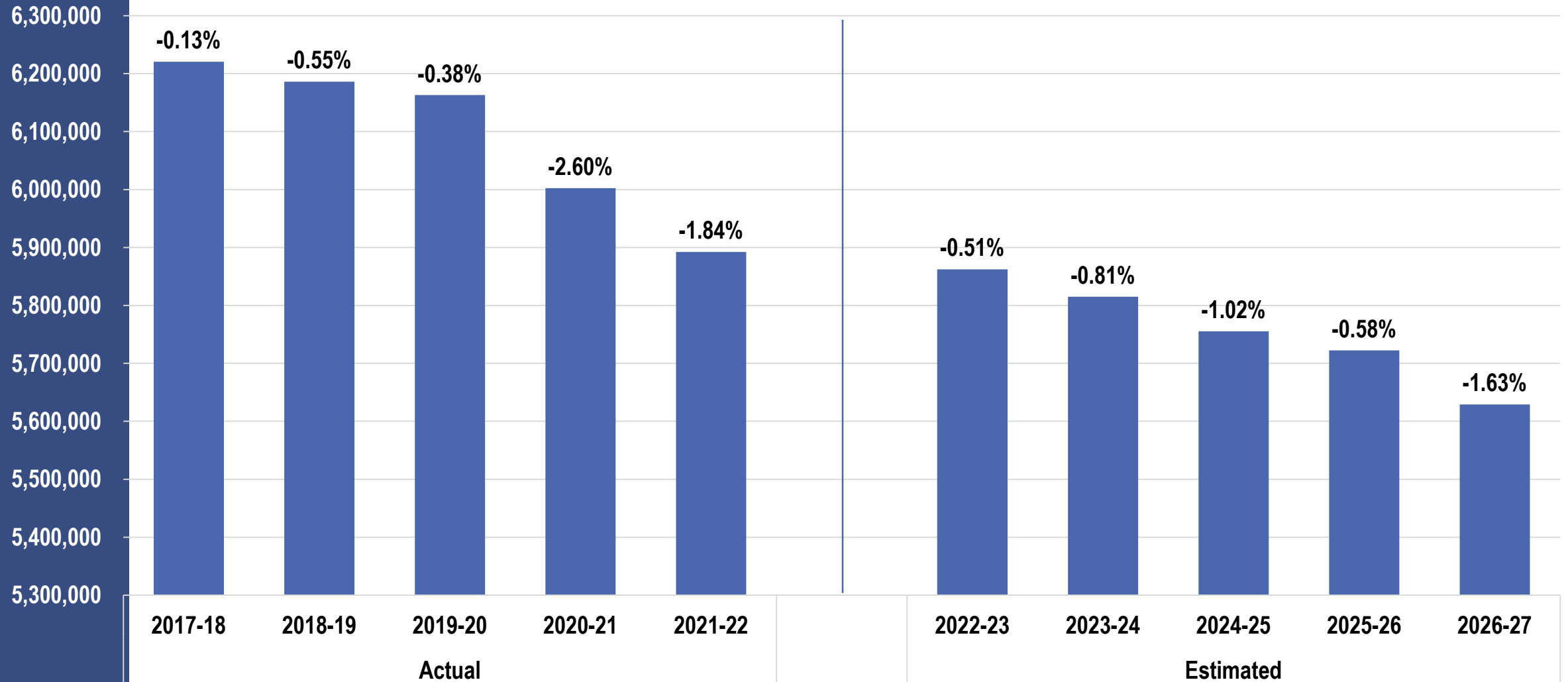
IUSD Enrollment Trends (TK-12)





Statewide Enrollment Trends—Ongoing Enrollment Loss

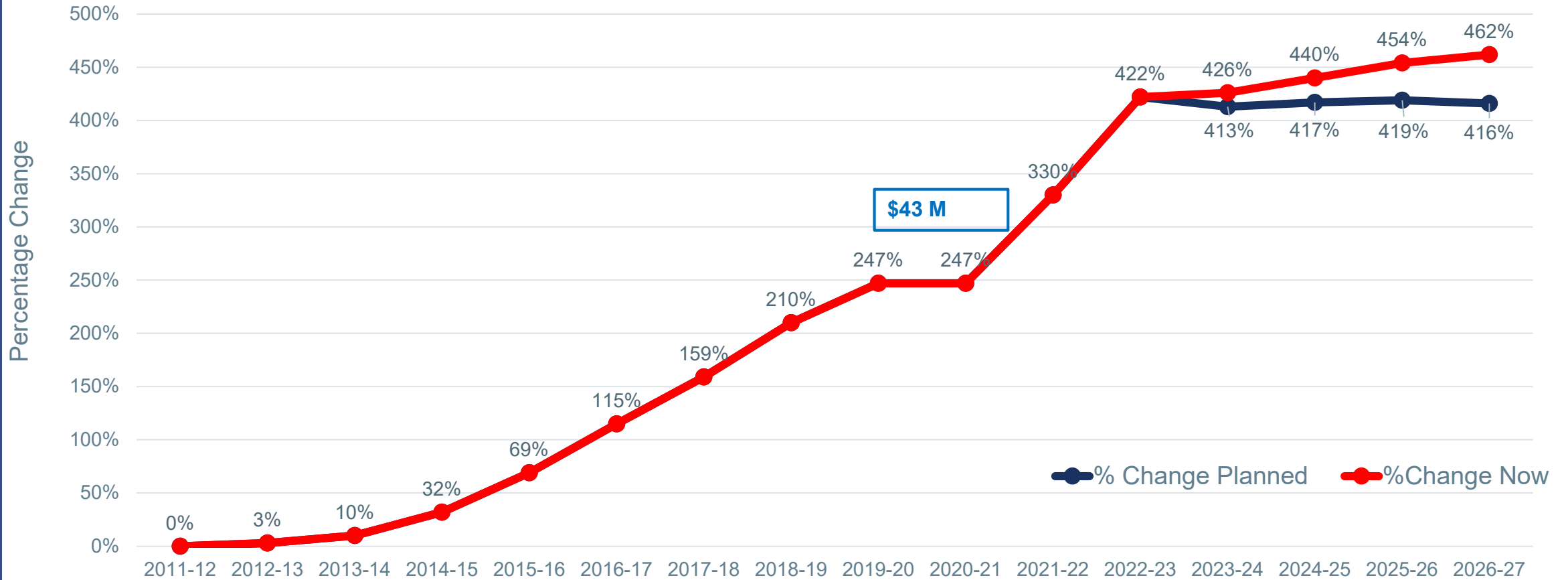
Statewide Enrollment Trends





STRS & PERS Projected Increases

STRS and PERS Percentage Change from 2011-12 to 2026-27





2022-23 Second Interim Assumptions

	2022-23 Projected	2023-24 Projected	2024-25 Projected
ADA (funded)	35,046	35,309	35,680
LCFF Funding per student	10,949	11,864	12,284
Property Tax Increases	4%	4%	4%
Salary Increases (On-going)	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%
Contingency Reserve	5,000,000	5,000,000	5,000,000



2022-23 Second Interim Financial Comparison

General Fund Unrestricted Balance

Description	2022-23 1 st Interim	2022-23 2 nd Interim	Variance
Total Revenues	\$410,286,586	\$407,463,516	(\$2,823,070)
Total Expenditures	(\$338,379,443)	(\$339,804,172)	(\$1,424,729)
EXCESS (DEFICIENCY)	\$71,907,143	\$67,659,344	(\$4,247,799)
Total Other Sources/Uses	(\$84,437,113)	(\$84,957,155)	(\$520,042)
NET INCREASE (DECREASE)	(\$12,529,970)	(\$17,297,811)	(\$4,767,841)
Beginning Balance, July 1	\$48,165,865	\$48,165,865	
Ending Balance, June 30	<u>\$35,635,895</u>	<u>\$30,868,054</u>	<u>(\$4,767,841)</u>



2022-23 Second Interim Financial Comparison

Components of Unrestricted Ending Fund Balance

Description	2022-23 1 st Interim	2022-23 2 nd Interim	Variance
Estimated Ending Fund Balance	\$35,635,895	\$30,868,054	(\$4,767,841)
<i>Components of Ending Fund Balance:</i>			
Revolving Cash/Stores	\$350,000	\$350,000	
State Required Reserve	\$11,162,000	\$11,352,000	(\$190,000)
Contingency Reserve	\$5,000,000	\$5,000,000	
Reserve for 2022-23 Ongoing funds allocated in 2023-24	\$4,669,305	\$4,669,305	
Reserve for 2023-24 LCAP	\$5,300,000	\$5,300,000	
Reserve for Transportation Funding	\$2,362,955	\$2,362,955	
Other Assigned Available	\$6,791,635	\$1,833,794	(\$4,957,841)



Unrestricted General Fund Financial Outlook

Description	2022-23 Projected	2023-24 Projected	2024-25 Projected
Total Revenues	\$407,463,516	\$442,207,883	\$461,846,673
Total Expenditures	(\$339,804,172)	(\$332,933,221)	(\$339,981,363)
EXCESS (DEFICIENCY)	\$67,659,344	\$109,274,662	\$121,865,310
Total Other Sources/Uses	(\$84,957,155)	(\$81,546,422)	(\$83,152,585)
NET INCREASE (DECREASE)	(\$17,297,811)	\$27,728,240	\$38,712,725
Beginning Balance, July 1	\$48,165,865	\$30,868,054	\$58,596,294
Ending Balance, June 30	<u>\$30,868,054</u>	<u>\$58,596,294</u>	<u>\$97,309,019</u>



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 2023-24 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
 - ▶ April 20 – Budget LCAP Board Study Session
 - ▶ June 13 – Board meeting public hearing on LCAP and Budget
 - ▶ June 27 – Adoption of LCAP and Budget



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!