

First Interim Financial Report Fiscal Year 2022–23

Board of Education
December 13, 2022

Agenda

- Overview of 1st Interim
- Budget Timeline
- State and District Outlook
- Multi-year Projection

First Interim Overview

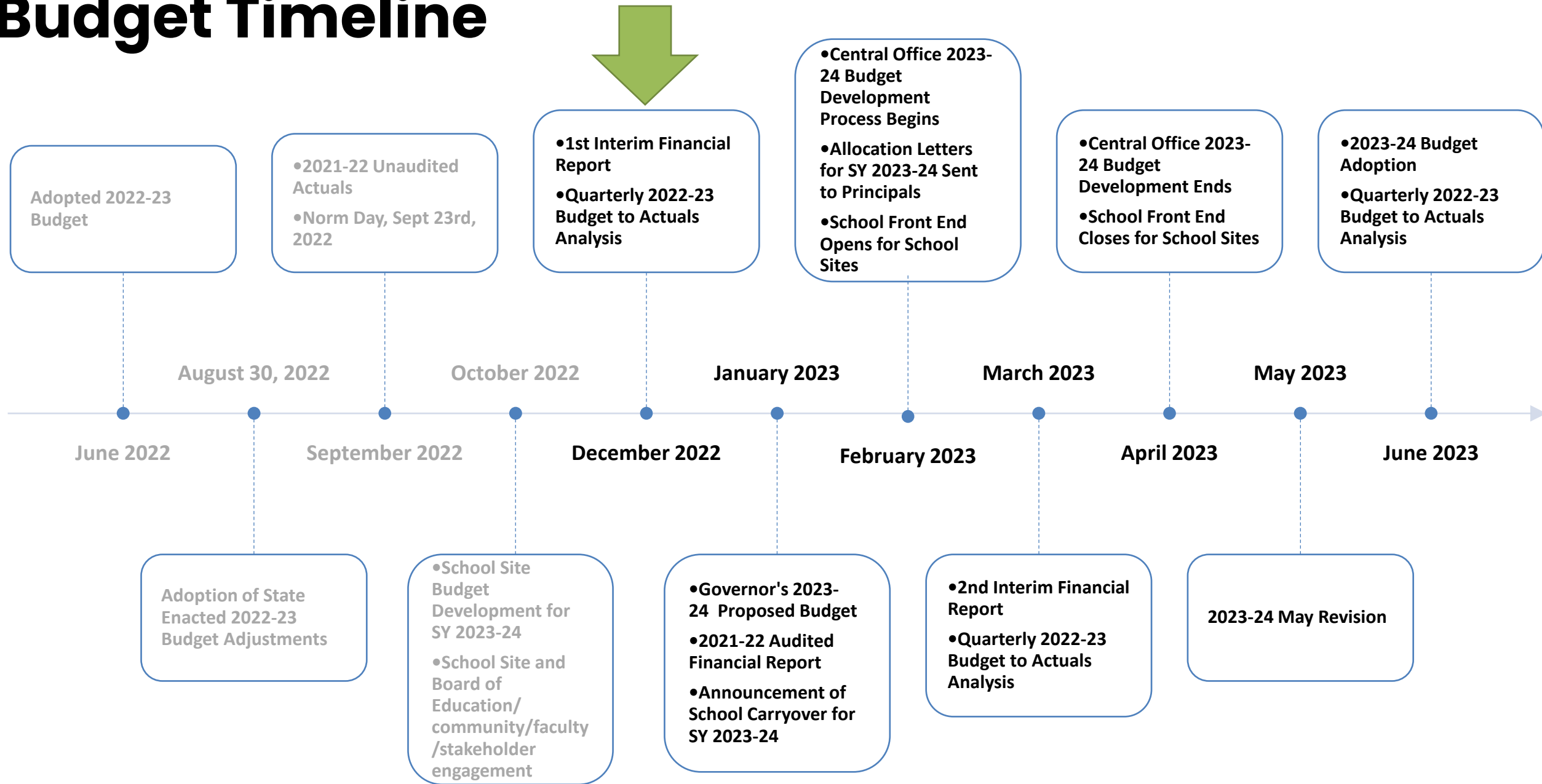
- Overview

- The First Interim Financial Report is a midyear update to the current fiscal year 2022-23 General Fund budget and a forecast of the next two fiscal years
- A legal requirement in compliance with Ed Code Sections 35035 (i), 42130, 42131, and a sound fiscal prudence practice
- To be filed with the County of Los Angeles Superintendent of Schools on December 15, 2022
- Board is requested to certify the District's financial condition as "Positive," meaning that the District will meet its financial obligations in fiscal year 2022-23 and two subsequent years

- Highlights

- The First Interim Financial Report projects a General Fund (unassigned/unrestricted) ending balance of \$139.7 million in 2022-23; This ending balance is \$230.7 million lower than reported at Revised Budget in August, and \$123.3 million lower than the budget as of October 31, 2022
- The multi-year changes in expenditures and revenues result in a cumulative ending balance of \$409 million by the end of 2024-25. This is an increase from the \$356.2 million reported at Revised Budget in August.
- District to certify "positive", meaning the District would meet obligations for the current year and the next two years

Budget Timeline



Fiscal Outlook

- State Fiscal Outlook:
 - Legislative Analyst's Office (LAO)* November 2022 report projects a state budget shortfall of \$25 billion in 2023-24 due to lower revenue estimates than projected in the 2022-23 Enacted State Budget
 - Despite an increased risk of an economic downturn due to rising inflation, LAO does not assume a recession in its fiscal analysis. However, if a recession occurs, it may result in a further reduction to revenues
 - Although Funding in Proposition 98 is anticipated to be lower, expenditure adjustments would allow funds to be available to cover the COLA in 2023-24
 - Governor's 2023-24 Proposed Budget anticipated in January 2023
- LA Unified Fiscal Outlook:
 - LA Unified is operating from an operating deficit
 - Enrollment declined less than forecasted in 2022-23, but the long-term trend of declining enrollment is projected to continue
 - Each 1% increase in attendance generates approximately \$58M in revenue
 - Prop 28, Arts Education Fund, passed on Nov 8, 2022

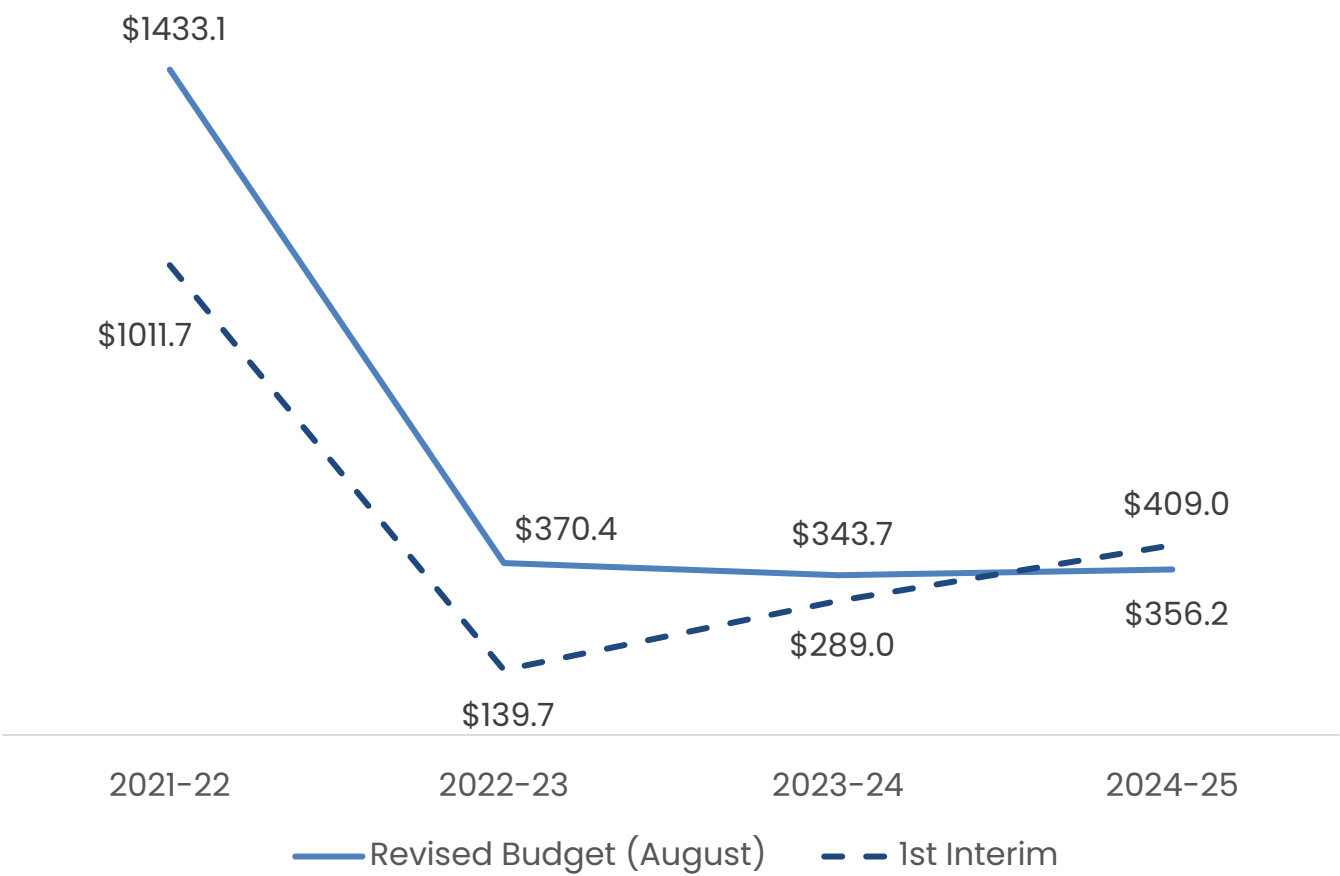
*The LAO is a nonpartisan government agency that provides fiscal and policy advice to the California Legislature.

Enrollment/ADA Used in Multi-Year Projection

	2022-23	2023-24	2024-25
Enrollment (TK-12)	422,276 Updated since August Revised Budget	394,186 To be updated at 2 nd interim	378,234 To be updated at 2 nd interim
ADA	90% May be updated at 2 nd interim	90% May be updated at 2 nd interim	90% May be updated at 2 nd interim

Multi-Year Projection

Unassigned/Undesignated Ending Balance
amounts in millions



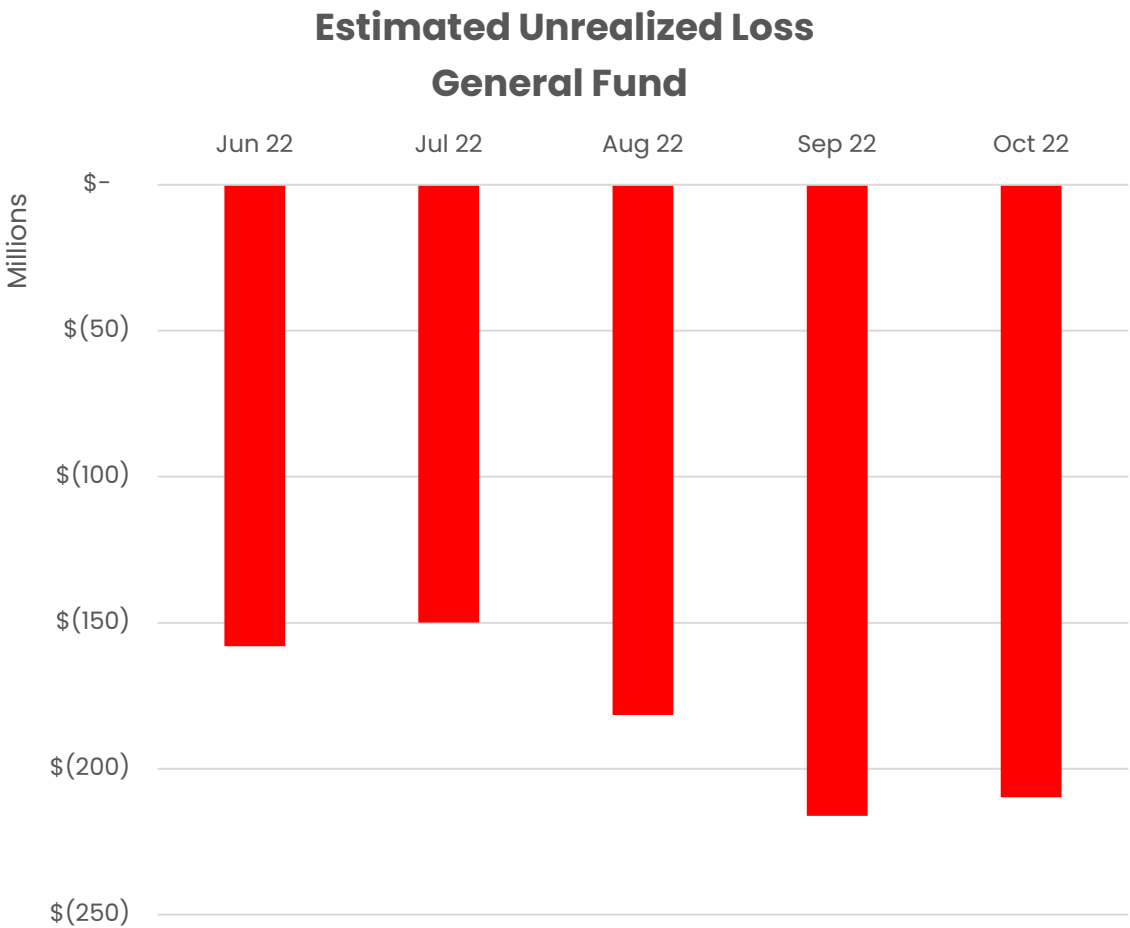
(in millions)	2022-23	2023-24	2024-25
Estimated Ending Balance at Revised Budget (August)	\$370.4	\$343.7	\$356.2
1 st Interim Estimated Balances	\$139.7	\$289.0	\$409.0
Change	(\$230.7)	(\$54.7)	\$52.8

Factors Not Reflected in Multi-Year Projection

- Future changes in compensation
- Additional contributions to LSI not already reflected
- Any potential additional unrealized loss on cash balances
- Prop 28 Arts Education funding
- Capital planning
- Potential cyber security investments
- Potential impact of economic downturn
- State's January proposed budget

Unrealized Losses

- By law, District’s funds are deposited in the County Treasury.
- The County Treasurer only invests public funds in those investments permitted by law.
- The value of such securities should be expected to change in value over time in response to prevailing market conditions (e.g. when interest rates rise or fall).
- When such securities are marked-to-market, there may be a circumstance whereby the current value of a particular investment is below its face value.
- Though the Treasurer does not intend to sell securities at a loss, Generally Accepted Accounting Principles (GAAP) require an entity to reflect the unrealized loss in its financial statements.
- GAAP does not require the entity in whose name the security is held to record interim mark-to-market valuations; accordingly, no current valuation has been included in First Interim.
- Though not reflected at First Interim, as of October 2022, the estimate of unrealized losses has increased to \$210 million, an increase of \$52 million from June 2022.



First Interim General Fund Unrestricted

	Modified Budget 2022-23	1 st Interim 2022-23	Variance by Dollars
Total Revenues	\$6,834.1	\$6,840.3	\$6.2
Total Expenditures	\$5,857.0	\$5,446.4	(\$410.6)

Amounts in Millions

- Salary and benefit savings due to vacant positions
- Projected underspending on some carryover programs (i.e., TSP & Textbooks)
- Shift of spending to available one-time COVID funding resources

First Interim General Fund Restricted

	Modified Budget 2022-23	1 st Interim 2022-23	Variance by Dollars
Total Revenues	\$5,671.4	\$4,525.8	(\$1,145.6)
Total Expenditures	\$6,068.3	\$4,368.2	(\$1,700.1)

Amounts in Millions

- Federal revenues are comprised primarily of grants, which recognize revenue based on expenditures incurred. Projected lower spending primarily in Title I and Elementary and Secondary School Emergency Relief (ESSER) funds
- Lower expenditures primarily due to vacancies and timing of spending, especially for books and supplies

COVID-19 Federal & State Grants

Data as of 10/31/22

CARES Act CRF LLMF \$489M (spent-\$489M) expiration date 5/31/21			State \$629M	Federal \$4.95B
GF LLMF \$48M (spent-\$48M) expiration date 6/30/21				
In Person Instruction Grant \$178M (spent-\$178M) expiration date 9/30/2024				
Expanded Learning Opportunities Grant** \$395M (spent-\$261M; available-\$134M)(\$14M expiration date 9/30/23; \$120M expiration date 9/30/24)				
Child Development \$4M (spent - \$4M) - expiration date 12/30/22				Liquidation Period: No new expenditures can be made, but funds can be drawn down for expenditures made during the period of availability.
CARES Act – GEER LLMF \$32M (spent-\$32) expiration date 9/30/22			Liquidation 12/29/22	
CARES Act – ESSER I \$290M (spent-\$290M) expiration date 9/30/22			Liquidation 1/28/23	Funding period: Period of time that the grantee can incur obligations to carry out activities authorized by the award. Also known as period of availability or period of performance.
Cares Act –Cafeteria Fund (\$.75 Supplemental) \$22M (spent- \$22M) expiration date not specified				
California Community Schools Partnership Program \$6M (spent-\$6M) expiration date 9/30/22				
CRRSA Act – ESSER II \$1,147M (spent-\$975M; available-\$172M) expiration date 9/30/23			Liquidation 1/28/24	
ARP Act – ESSER III \$2,579M (spent-\$636M; available \$1,943M) expiration date 9/30/24				Liquidation 1/28/25
ARP Act – Screening Testing for Schools \$82M (spent - \$82M) expiration date 7/31/22				*maximum amount applied for potential reimbursement
ARP Act – Emergency Connectivity Fund Batch 1 – \$198M* (spent-\$35; available \$163) expiration date 6/30/23 Batch 2 – \$45M* (spent \$0; available \$45M) expiration date 12/31/23				
Special Education Dispute Prevention and Learning Recovery Support \$56M (spent-\$28M; available-\$28M) expiration date 6/30/23				
LEA Response Fund \$8M (spent-\$8M) expiration date not specified				
SY 2020-21	SY 2021-22	SY 2022-23	SY 2023-24	SY 2024-25

Components of General Fund Ending Balance

2022-23	
Non-Spendable – Inventory/Prepays/Revolving cash	\$43.0
Restricted	\$1,750.0
Committed	\$2,333.2
Assigned	\$426.8
Unassigned	
Reserve for Economic Uncertainty	\$238.8
Undesignated	\$139.7

Amounts in Millions

- Reserve cap is 10% of General Fund expenditures and other financing uses
- District in compliance with Reserve cap
- Commitments include Inflation Protection, OPEB contribution, and SENI contributions

Committed Ending Balance

PROGRAM NAME	2022-23 Estimated Ending Balance
Targeted Student Population & Proportionality	\$1,026.6
Student Equity Needs Index (SENI)	\$600.0
Other Post-Employment Benefits (OPEB)	\$422.0
Inflation Protection	\$244.6
Primary Promise	\$40.0
Total	\$2,333.2