Date: December 10, 2021

To: Board of Trustees

From: Chris Johnston, Assistant Superintendent, Business Services

Re: 2021-22 First Interim Report Executive Summary

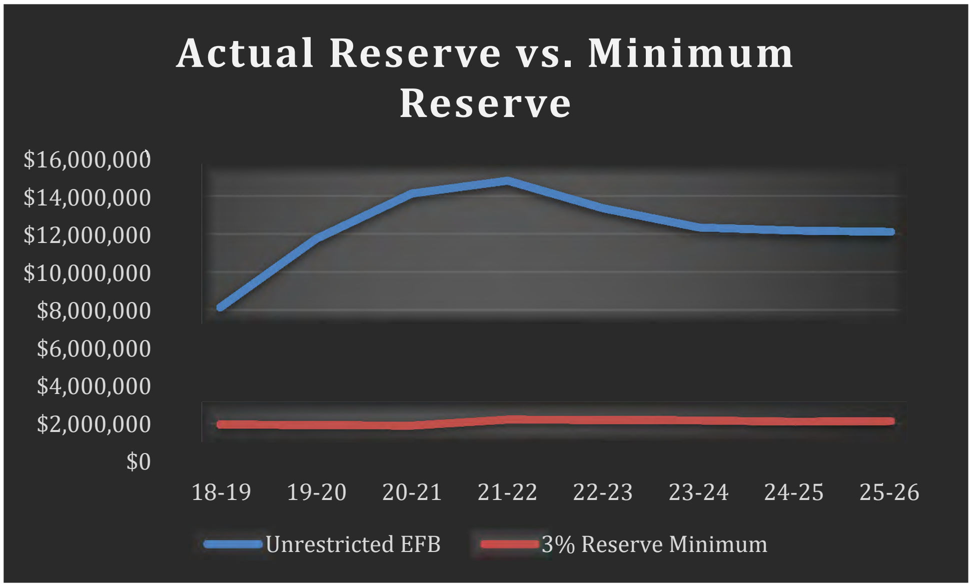
Introduction

The interim financial reports serve both statutory and management functions. Per the AB 1200 process, the Board of Education must certify the 2021-22 First Interim report as positive, qualified, or negative. This certification attests to the District's fiscal solvency, or lack thereof, for the current and subsequent two fiscal years. As a management tool, the interim reports and included multi-year financial projections estimate future year deficits or surpluses. Projected deficits call for expenditure reduction planning or strategic use of reserves to temporarily bridge funding shortfalls. Projected surpluses indicate the availability of funds for new programs and other long-term financial obligations such as salaries and benefits.

The primary multi-year financial projection (MYFP) is based on conservative assumptions. This primary MYFP serves as the official MYFP projection submitted to the county office of education and state department of education for statutory compliance. After demonstrating that positive certification is warranted, this executive summary also discusses an alternative MYFP, the understanding of which is valuable for long-term district management and planning.

Positive Certification

This 2021-22 First Interim Report demonstrates, using conservative financial projections, that the district can meet its financial obligations this year and in the two subsequent fiscal years. For 2021-22 the report projects a significant unrestricted general fund surplus. For 2022-23 and 2023-24 the primary MYFP projects large unrestricted general fund deficits. For purposes of solvency, it should be noted that the combined projected deficits in 2022-23 and 2023-24 ($2.6M) are less than the single year surplus in 2021-22 ($2.8M). Staff recommend, and the data support, a positive certification. Demonstrating that positive certification is warranted, the chart below plots the District's unrestricted general fund reserves against the statutory minimum required.



Management and Planning Considerations

This 2021-22 First Interim Report comes during the third school year disrupted by the COVID-19 pandemic. These pandemic-impacted years have seen unprecedented financial and operational volatility. This began with proposed 10% cuts to all education agencies and included an influx of one-time stimulus funds, but no state or federal solutions for the long-term disruptions to student enrollment. Operationally, districts have prepared for both virtual and site-based instruction, with volatile enrollment, a host of operational challenges, and ongoing mitigation efforts. Amid this financial and operational uncertainty one thing remains constant: it is easy for school districts to make financial commitments, but very difficult to unwind those commitments during challenging times. As such, it is incumbent upon the District to chart a financial course that relies on conservative, verifiable assumptions. Our primary financial projects accomplish this task, ensuring that the District is planning for long-term financial stability.

At the same time, it is important for the District to be poised to take advantage of additional funding streams that can grow and deepen District activities. To that end this report includes data from a secondary financial projection using recently released information from the Legislative Analyst's Office. The secondary projection indicates that PVSD will have opportunities to grow services and supports in future budget years, if the predicted economic conditions materialize. Until a state budget is adopted that incorporates projected funding increases, PVSD can make no financial commitments. However, awareness and preparation will keep the District positioned to take advantage of opportunities when they arrive.

Major Revenue Assumptions

<u>Enrollment</u>

As enrollment and average daily attendance (ADA) are the primary drivers of California school district revenue apportionments, enrollment and ADA projections require careful consideration. Prior to the pandemic, PVSD was working with data from a demographic study which indicated a continued average ongoing enrollment decline of approximately 1% per year. At the onset of the pandemic PVSD saw a drop in enrollment of approximately 300 students. Data indicate that a large portion of this enrollment drop was attributable to families moving out of district boundaries due to the pandemic recession. In spring of 2021 PVSD saw a rebound in enrollment, indicating a partial recovery from the prior loss. However, from spring of 2021 to fall of 2021 PVSD saw another wave of enrollment drops. This second wave of enrollment loss included a significant proportion of families pursuing homeschool, private school, and online charter school alternatives, or delaying enrollment into kindergarten (which is a non-mandatory grade). For some families, the non-site-based programs offered perceived safety from the continued pandemic. For other families, these education options offered alternatives to the COVID safety mandates from the state. In both cases, pandemic conditions drove the decision to disenroll with many of these students still residing within District boundaries.

The District remains hopeful for re-enrollment of these students, post-pandemic. However, the District has no firm data that justify including enrollment recovery in the financial projections.

We see other factors that are expected to add to enrollment. After a slowdown in new housing starts during the lockdown phase of the pandemic, hundreds of new housing units are now under development or construction. A meaningful portion of these units are focused on affordability to families. Even more importantly, the four-year expansion of transitional kindergarten (adopted in this year's budget trailer bill language) could result in approximately 450 new enrollments over that time period. Lastly, PVSD's robust educational offerings have increased the waiting lists of inter-district transfers into the District. These factors combined would more than compensate for the decline in

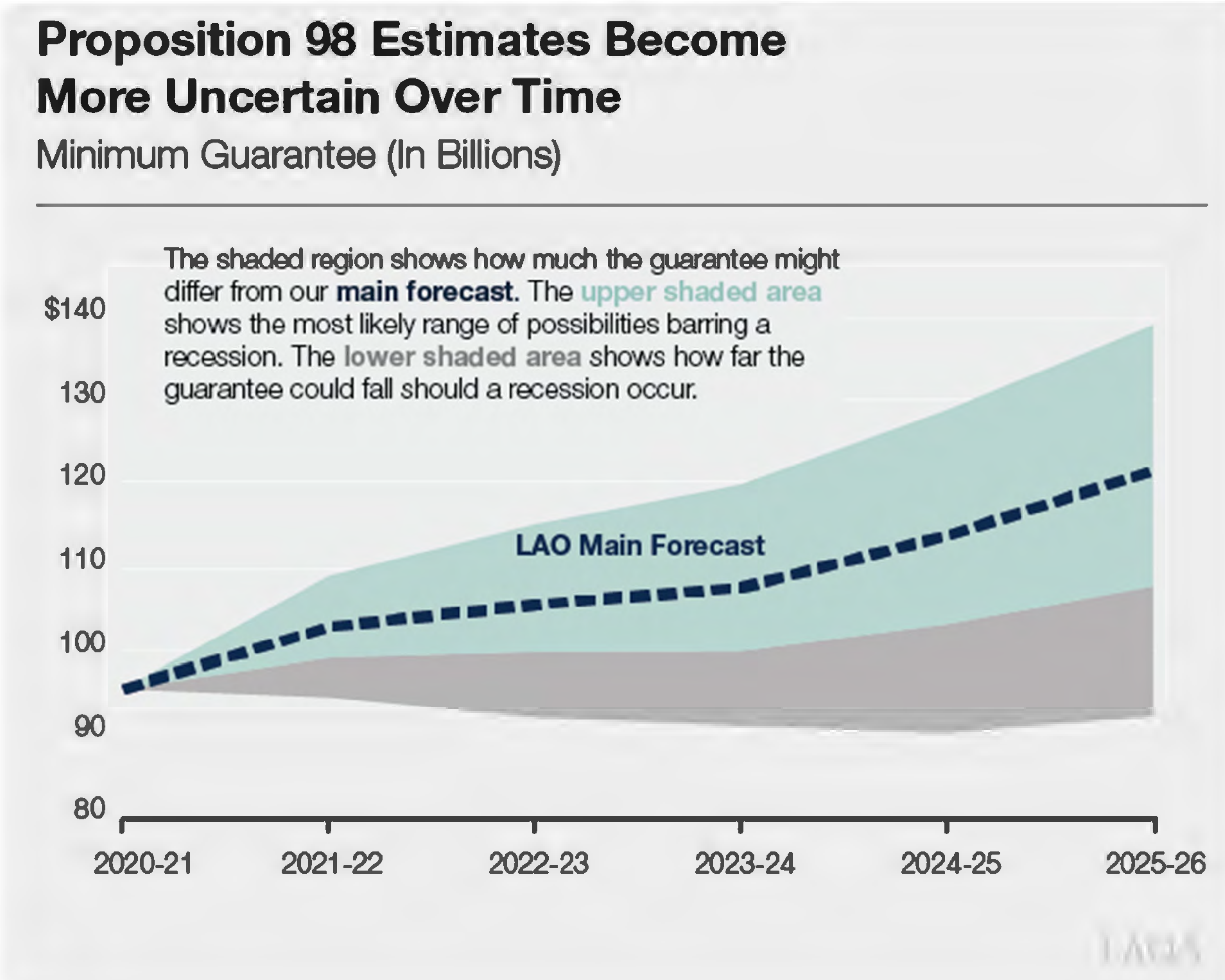
Camarillo zip code birth rates, resulting in an upward trend in enrollment from this year's likely nadir of 5,783 students.

In making the enrollment and ADA projections for this report we considered the risk of overestimation of enrollment. When enrollment is overestimated the penalties are twofold. First, the district's projected revenue from that enrollment does not materialize. Secondly, the district increases staffing. Those staff members must be paid, with no revenue to match. Considering this double penalty, conservative enrollment and ADA projections are warranted. Therefore, although the multi-year enrollment is likely to grow from this year's 5,783, the multi-year projection conservatively plans the District's revenues based on the district remaining at this low point for the next five years. By the time of the Second Interim report we expect to have a new demographic and enrollment study completed. If data support it, we will include more optimistic enrollment projections in the Second Interim report.

Cost of Living Adjustment

A second primary driver of changes to district revenues is the Cost of Living Adjustment (COLA), as applied to the state's Local Control Funding Formula (LCFF). This First Interim report's official multi-year financial projection uses School Services' "Dartboard" recommendations of 2.48% COLA applied to LCFF revenue in 2022-23 and 3.11% in 2023-24. These COLA estimates date back to the July adopted state budget.

In November the non-partisan Legislative Analyst's Office (LAO) released The 2022-23 Fiscal Outlook for Schools and Community Colleges report. Using current economic data, the LAO report projects higher COLA than the "Dartboard" planning factors: 5.35% in 2022-23 and 3.5% in 2023-24. Statutory COLA is calculated based on a federal measurement of inflation. Funded COLA is contingent upon the state's ability to finance that COLA. The LAO report also projects state education revenues that will be more than sufficient to fund the LAO-projected statutory COLA. The graphic below is borrowed from the LAO report.



Considering that funding for the “Dartboard” COLA projections falls in the green shaded area below the Main Forecast line, we may consider these projections as the conservative projections to be used in our primary MYFP. The official MYFP therefore includes these conservative projections for meeting our statutory requirement to ensure solvency.

For purposes of planning, we also prepared the secondary financial projection using the LAO COLA projections. The positive revenue impacts of these alternative projections are presented later in this executive summary.

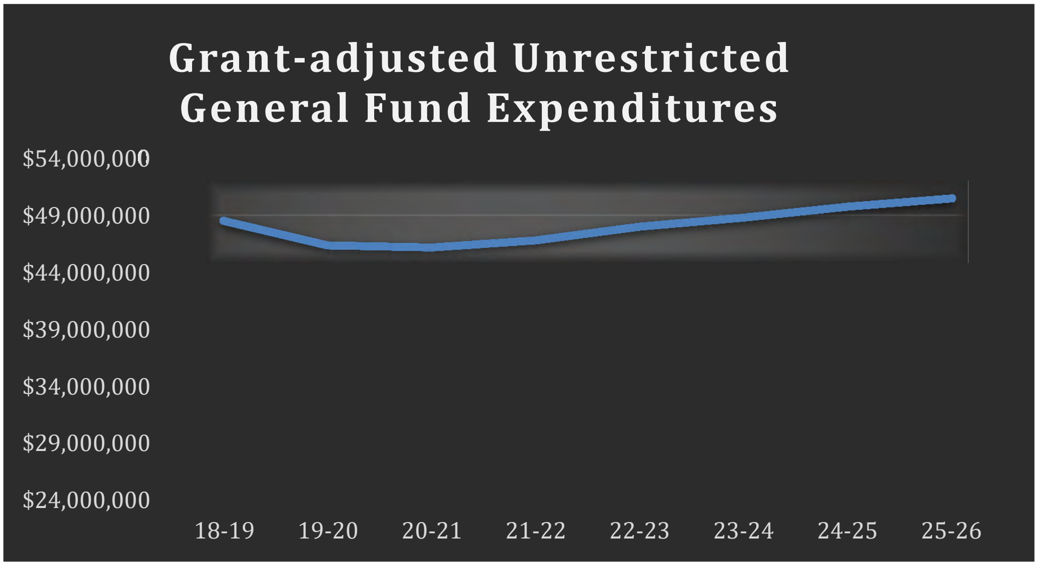
The First Interim report does not include projections for COLA above the LAO projections, or additional funding related to the possible increase in the Prop 98 guarantee. There is an important reason for this. As seen in the 2021-22 adopted state budget, state leaders have demonstrated a propensity to allocate new monies (above the COLA) through targeted categorical programs. Districts cannot plan for implementing these categorical programs until the state releases program details. As program details are at best months away, and discussion here would at best be speculative.

Major Expenditure Assumptions

With an influx of one-time dollars in restricted resources, and additional unrestricted dollars due to the state's "ADA hold harmless", many school districts are in danger of losing site of what is and what is not sustainable in the long term. PVSD's financial strategy has been clear throughout the pandemic: we have held our base education program intact, using ongoing unrestricted funding. (If unrestricted funding fell short, we had reserves to tap into, due to careful planning in prior years.) Put another way, our core ongoing program is funded by -and within the constraints of - ongoing funding.

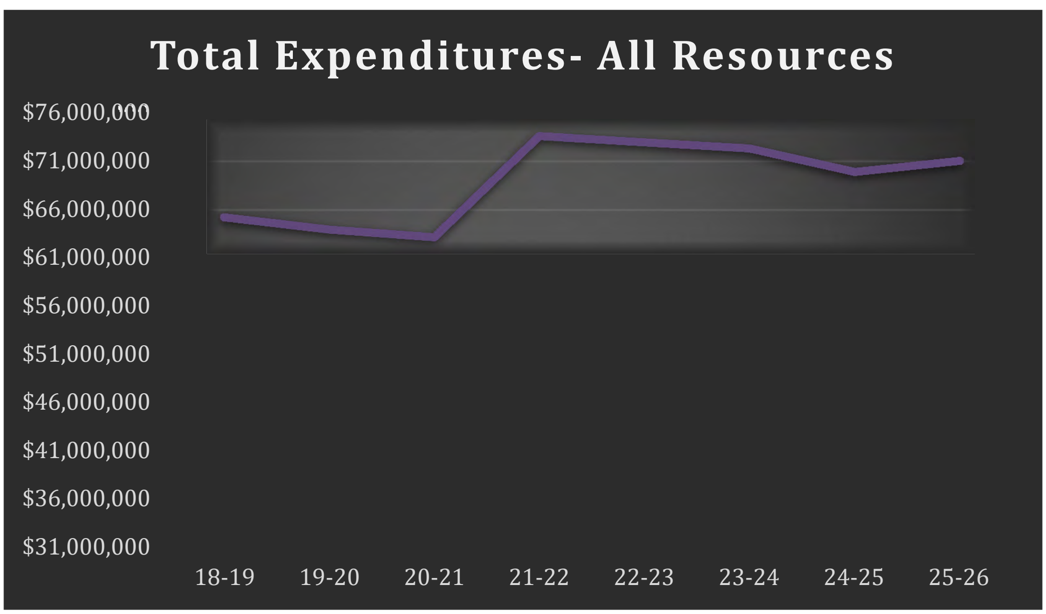
At the same time, PVSD has engaged in a wide variety of effective, yet costly, COVID mitigation and safety initiatives. Those actions were funded with one-time dollars, and not confused with ongoing expenses. Due to pandemic disruptions PVSD students needed additional programs and supports. PVSD funded our wide variety of additional programs and supports with one-time dollars, strategically sequenced to extend supports over a one- to four -year period. Again, these programs were not conflated with the ongoing core education program.

As a result of this strategy PVSD can clearly project the ongoing unrestricted general fund expenditure trend, seen below.



The growth in costs over the timeline of the projection includes statutorily increased retirement contributions by the District, step and column wage growth, and inflationary pressure on goods and services. For full data details on these factors, please see the "assumptions" page in the five-year MYP report, produced using FCMAT's Projection Pro software.

In contrast to the view of the unrestricted expenditures alone, please see below a graph of projected total District expenditures over the same time period.



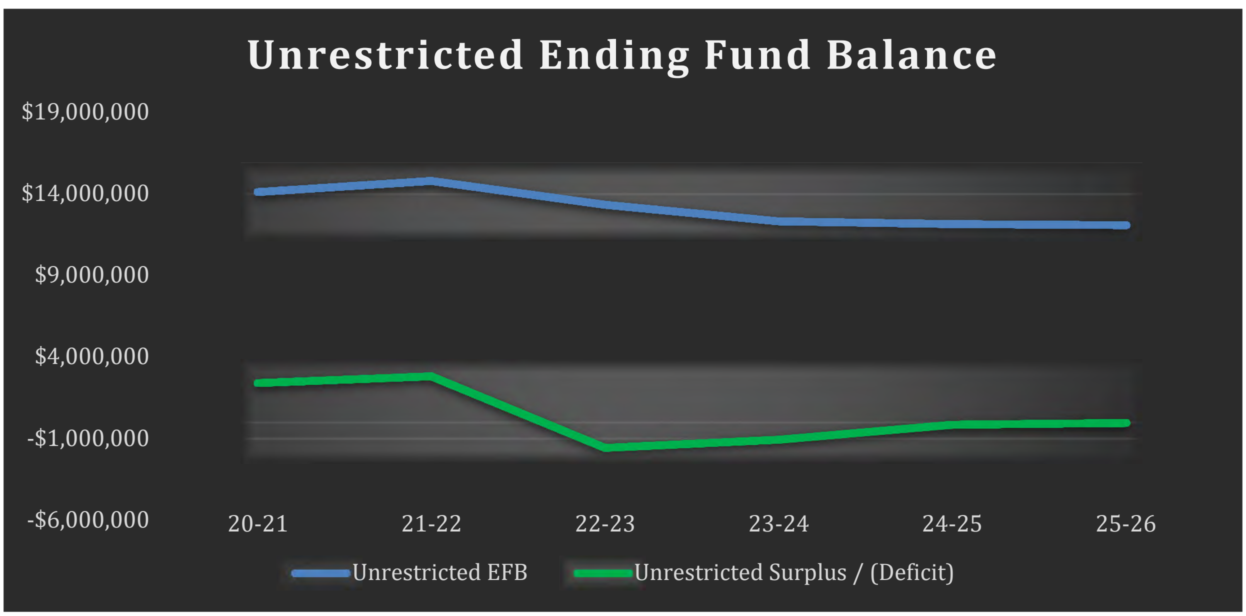
The increased volatility of expenditures over this timeframe reflects the impact of one-time funds. Please note the relative stability of the 21-22 through 23-34 range, wherein PVSD plans to sequence the spending of one-time funds for a “soft landing” of extra student supports.

Projected Reserve Summary

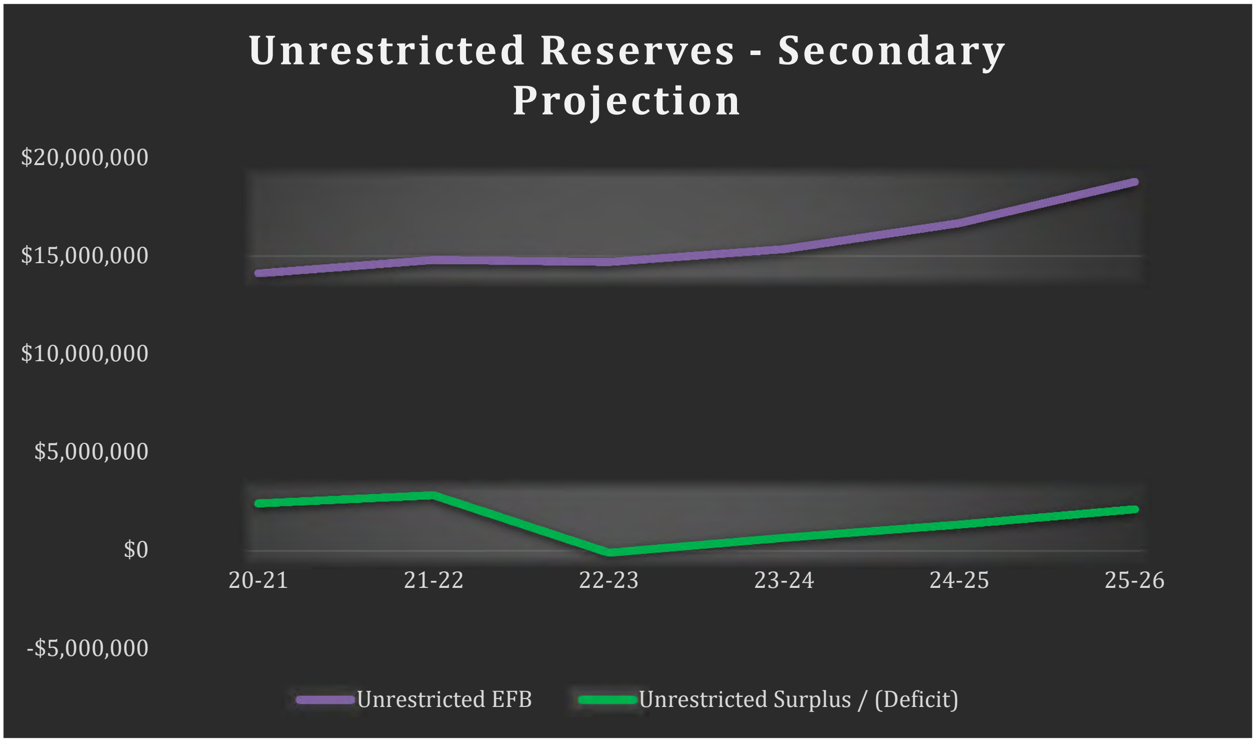
This report presents the District’s unrestricted and restricted fund summary separately. Our unrestricted general fund roughly represents ongoing operations of our core instructional program. The restricted funds summary reflects both ongoing restricted programs like Special Education services and the newly-created Expanded Learning Opportunity Program, as well as one-time funding streams like the Expanded Learning Opportunity Grant and the three federal ESSER relief packages.

Unrestricted General Fund

As noted above, our conservative primary projection expects deficits in the subsequent two fiscal years to offset the projected surplus in the current fiscal year. Over the time of the projection the District substantially retains reserves.



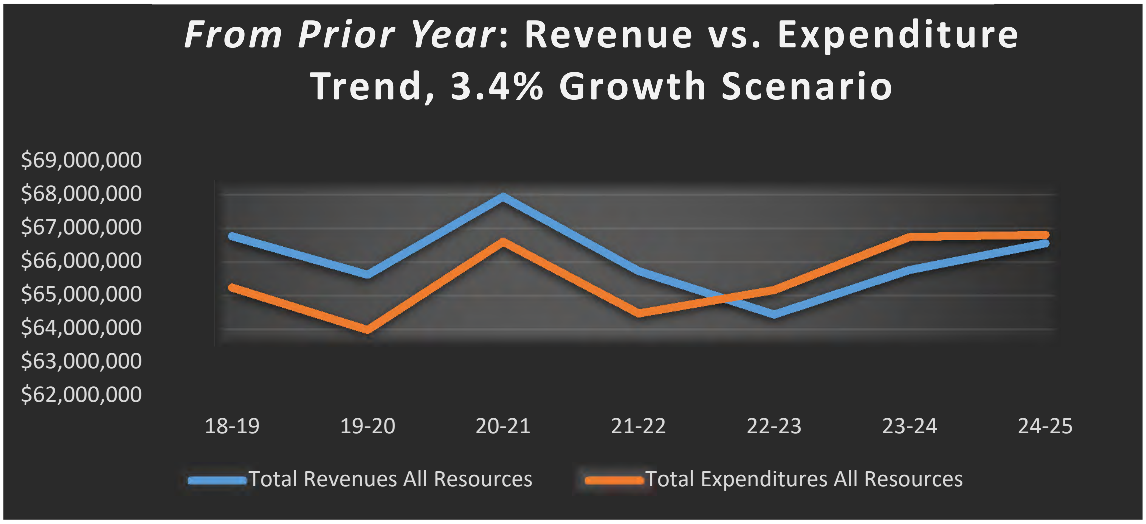
Please find below the same graph, using data from the the secondary projection, which incorporates the LAO's COLA.



It is important to note that this graph does not depict what the District would do with projected surpluses, or indicate that surpluses would be added to the reserve. Instead, the key takeaway is that if the LAO projections hold true, PVSD will have additional discretionary unrestricted general fund dollars available for allocation by the Board of Education.

Prior-Year Projections

A year ago, for 2021-22 First Interim Report staff presented three separate projections, based on three scenarios considered by the LAO. A graph of the more optimistic trend, the 3.4% growth scenario is found below. Of all the scenarios presented last year, current conditions most closely resemble that scenario.



Conclusion

The PVSD Board of Education has a history of strategic response to volatile economic news. As noted above, the financial projections are contingent upon numerous assumptions. Each assumption contains a degree of potential variability. Lingering pandemic conditions introduce more variability into projections than in more stable times. This is evidenced by the wide range of uncertainty in the LOA projection seen on page 5.

Strong reserves and pre-pandemic budget balancing activities place the District in a position of strength. If the conservative budget scenario plays out, the PVSD is more than able to bridge the dip in revenues. Other districts, without the same strategic planning in place, are considering layoffs and budget cuts. Should the more positive funding scenario come to fruition, PVSD will have additional resources available to serve the students in the community. As is typical, we look forward to the Governor's January Budget proposals and May Revision. When that information becomes available, staff will develop and present updated financial reports.