

***Oakland Unified School District  
Financial Policy Document  
Structurally Balanced Budget***

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Adoption Date: **TBD**  
Last Revision Date: **TBD**  
Owner Department: **TBD**

## **I. Introduction**

The state requires that Oakland Unified School District (“the District”) adopt a budget which maintains a two percent reserve for economic uncertainty. However, even a budget that is balanced, in that sources equal uses, may not necessarily be sustainable because on-going expenditures could be supported by temporary or highly volatile revenues. The District would experience financial distress when these temporary or volatile revenues were no longer sufficient to cover on-going expenditures. This policy supports the on-going financial sustainability of the District by advancing a more sustainable definition of a balanced budget – the structurally balanced budget.

## **II. Definitions**

This section defines key terms related to a structurally balanced budget:

***Ongoing revenues*** are the portion of the District’s revenues that can reasonably be expected to continue year to year. California’s per pupil funding allocation (including Base, Supplemental, and Concentration funding) is an example of recurring revenue.

***One-time revenue*** cannot be reasonably expected to continue from year to year. A grant with a term of one year, or one-time revenues from the state to support Common Core implementation (2013-14) are good examples of a non-recurring revenue.

Some revenue sources may have both non-recurring and recurring components. These sources require the District to exercise judgment in determining how much of the source is truly recurring. Every year, school districts receive shared revenue from the state, but at least part of the total revenues varies according to the deliberations of the state legislature each year.<sup>1</sup> As a result, it is prudent to regard unusually high revenue yields as a non-recurring revenue under the assumption that such revenues are unlikely to continue, making it imprudent to use them for recurring expenditures.

***Ongoing expenditures*** appear in the budget each year. Salaries, benefits, materials and services, and asset maintenance/replacement costs are common examples of recurring expenditures. In general, recurring expenditures should be those that the District expects to fund every year in order to maintain current/status quo service levels.

***One-time expenditures*** comprise special projects such as capital improvements, asset acquisition, and other costs that the District incurs infrequently. In general, the District has a

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<sup>1</sup> Developer Fees: Fees can be expected to come in, but can vary year to year.

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greater degree of flexibility to defer non-recurring expenditures than recurring ones.

**Reserves** are the portion of fund balance that is set aside as hedge against risk. The District has defined a minimum amount of funds it will hold in reserve. This serves as a “bottom line measure” to help determine the extent to which the District’s structural balance policy is being met – if reserves are maintained at their desired levels, it is an indication that the District is maintaining a structurally balanced budget. If reserves are declining, it may indicate an imbalance in the budget (e.g., if reserves are being used to fund on-going expenditures).

### **III. Structurally Balanced Budget Goal**

The District shall endeavor to adopt a structurally balanced budget. Generally, this means that ongoing expenditures should be covered by ongoing revenues and that one-time revenues should be used to fund one-time expenditures. On occasion, the ongoing revenues may cover the one-time expenditures when revenues increase.

The District’s finance staff shall develop a budget presentation that shows the District’s progress in achieving a structurally balanced budget.

### **IV. Structurally Balanced Budget Directives**

While it is the Board's intent to provide the District and staff with flexibility on how to pursue and achieve a structurally balanced budget, there are some points which the District should observe very closely when developing a budget.

- **Planned use of a reserve:** If there is a planned use of the reserve that would have a negative impact on the fund balance, that use is accompanied by a plan to address the expenditures causing the draw down of the reserve and to restore to reserve level consistent with Board Policy XX.
- **Employee compensation and one-time revenues.** Except in extreme circumstances, one-time revenues and especially reserves should not be used to fund employee ongoing compensation (i.e., compensation based on salary schedule v. extended contracts). One such exception might be a severe economic downturn where one-time revenues are temporarily used to ease the transition to an expenditure structure that is in line with new economic realities. Even this should only be done in the context of plan to return to structure balance and replenish any reserves that had been used consistent with Board Policy XX.
- **Operating and maintenance costs of capital assets purchased with one-time revenues.** While capital assets are often a good investment to fund with one-time revenues, the District’s analysis of the feasibility and sustainability of developing capital assets shall include the long-term operating and maintenance costs of such investments, in context of other factors such as outstanding debt obligations. Investments in capital assets should not create new on-going expenditure obligations that the District cannot maintain.
- **Replacement of short-lived assets and one-time revenues.** The District shall give

**Commented [1]:** Look for some reporting examples.

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preference to using one-time revenues to replace assets that have outlived their useful lives over purchasing entirely new assets, where the replacement of the obsolete or expired assets is critical to the maintenance of the District's core priorities and programs. A replacement schedule for such assets is a good indicator of when to budget for these items.

**Commented [2]:** Is there currently a policy to directing the district to maintain this kind of information?