



Alameda County Office of Education

Alysse Castro, Superintendent

January 21, 2025

Dr. Kyla Johnson-Trammell, Superintendent
Members of the Board of Education
Oakland Unified School District (OUSD) via email

RE: 2024-25 First Interim Budget Report Review

Dear Superintendent Johnson-Trammell and Members of the Board,

OUSD filed a NEGATIVE certification of the District's 2024-2025 First Interim Budget Report. A Negative Certification means that the district projects it will be UNABLE to meet its financial obligations in either the current or the subsequent fiscal years. ACOE has reviewed the report and concurs with the District's NEGATIVE certification.

This is not an abstract problem. Without significant intervention, the district is projected to run out of cash during the 2025-26 school year, leading to significant destabilization for students and staff, necessitating another bankruptcy loan from the State, and forfeiting local decision-making authority. The next six months provide a narrow window of opportunity for OUSD to complete its planned Re-envision, Redesign, and Restructuring (3Rs) process.

Both the OUSD Board and district leadership have appealed to the County Superintendent for additional support to accelerate this process under local control. We all agree that the best course of action is for the locally elected Board to lead Re-envisioning decisions for the next generation of Oakland students. We also agree that this is a last opportunity to provide additional intervention to support the Board in their decision-making efforts.

A negative certification triggers required intervention from the County Superintendent. Specifically, EC Section 42127.6(e) requires that "the county superintendent of schools...shall take at least one of the actions described in paragraphs (1) to (5), inclusive, and all actions that are necessary to ensure that the school district meets its financial obligations"

1. *Develop and impose a budget revision that will enable the district to meet its financial obligations in the current year.*
2. *Stay or rescind any action that is determined to be inconsistent with the ability of the district to meet its obligations in the current or subsequent fiscal year.*
3. *Assist in developing a financial plan that will enable the district to meet its future obligations.*
4. *Assist in developing, in consultation with the governing board, a budget for the subsequent fiscal year.*
5. *As necessary, appoint a fiscal advisor to perform any or all of the duties prescribed above.*

To date, as the county superintendent since January 2023, I have attempted to provide the minimum, but necessary, level of oversight to a Board that has placed a high value on ending a lengthy period of trusteeship. While the Board has made meaningful progress on many fronts, it has also continued to change direction and postpone difficult decisions. Indeed, in its most recent evaluation of the county superintendent's oversight of OUSD, FCMAT describes a troublingly familiar pattern:



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Although the county superintendent remains focused on the district's recovery, governance and operational dysfunction within the district continue to hinder effective oversight. A key example is the district's failure to develop and implement a coherent fiscal solvency plan. The recovery process relies on using the LRRP [Long Range Recovery Plan] or FCMAT's Comprehensive Review as planning and tracking tools. Instead of using these resources, the district has created multiple alternative plans, which it continues to alter or bypass when faced with difficult decisions. As a result, the district board defers necessary decisions, and when made, they are either rescinded or their implementation is delayed.

OUSD ceased to follow the standard Long Range Recovery Plan, or Fiscal Recovery Plan, expected of districts with a state loan. Instead a locally defined Fiscal Vitality Plan was created to cover 2018-2020. This was replaced by the Fiscal Sustainability Plan for 2021-2024, which required actions be identified in May and approved by the Board every June on these five Broad Priority Areas:

1. Budget and Operational Practices
2. Budget Development and Stakeholder Engagement
3. School Quality and Enrollment
4. Use of Restricted Resources
5. Ability to Make Difficult Decisions

This did not get completed, which led to the Board approving the 2023-2026 Fiscal Sustainability Plan that expanded to 10 priority areas:

1. Re-Design Plans
2. Enrollment Stabilization
3. Complete Remaining 6 Vitality Plan Areas
4. Securing an unqualified financial audit
5. Address One-Time Shifts from 2023-24 and Impact of One-Time Investments back into the General Fund
6. Address deficits in Deferred/Facility Maintenance Investments
7. Initiate and complete the Fiscal Systems Audit
8. Continue finance department implementation plan
9. Develop multi-year plan of how to adjust the District's size, programs, and initiatives including a review of the exponential growth in Special Education
10. Invest in competitive compensation for all employees.

In January 2023, the Board rescinded the planned closure of multiple schools without addressing the fiscal impact. Later that year, the Board approved significant compensation increases for educators without identifying tradeoffs to fund these ongoing commitments. In both cases, Board members expressed an understanding of the need to make hard decisions, and appealed for more time to engage in better decision making processes.

That time will run out soon.

If the Board does not make decisions now, it will rapidly lose the ability to make them at all. I have a deep respect for the commitment of the board trustees and the enormous effort required to govern in challenging circumstances. These are not new challenges and they are exactly the challenges you and I were elected to address. The 2009 restructuring process identified three reasons for restructuring:

- The district operates too many schools for the number of students in the district.
- The district operates too many under-enrolled schools and very small schools not otherwise designed to be small.
- The district does not provide a quality program with adequate services to meet student and family needs in every neighborhood.



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For the last 15 years, every OUSD Board has reached the same conclusion, but created a new plan to address it. Many lessons have been learned. Some are useful: Community Schools are effectively meeting community needs. Some are complex: a school choice system creates better options for many, but may reinforce inequity. Some are reactive: despite frustration with the status quo, every revised plan reduces confidence in change. This is the current reality.

In June 2024, the OUSD Board passed the Re-envision, Redesign, and Restructure (3Rs) Resolution which commits to three separate processes by June 2025.

1. **Redesign:** Utilizing the Sustainable Community Schools Model to improve equity and student outcomes (Identifying one school for transformational school redesign in 2024-25.)
2. **Re-envision:** A citywide assessment of OUSD's operational footprint to address overcapacity. (The Board, with the support of the Superintendent and Staff, will lead a citywide re-envisioning process in 2024-25 to solicit recommendations for the District's future footprint by June of 2025. A re-envisioning process to determine Oakland Unified School District's future footprint and a restructuring plan for the District are two of the ten strategies listed on the District's Fiscal Sustainability Plan.)
3. **Restructure:** Aligning district services, staffing, and resources to long-term fiscal goals. (The Superintendent is directed, with the support of the Board, to engage key stakeholders in a process to develop a Plan for the restructuring of the District by June of 2025, to be implemented beginning in the 2025-26 School Year. The Plan shall include restructuring of staff formula to schools, restructuring of the CSI Division, restructuring of business/operations, and restructuring of school site allocations)

During Fall 2024, the Superintendent proposed and the Board adopted significant Restructuring measures, which are being readied this spring for full implementation in 2025-26. If successfully implemented, this restructuring will make a significant, but not complete, positive impact on the district's long-term viability. Successful implementation is a massive undertaking, requiring many hundreds of hours of staff time. Also during this period, the Superintendent and staff took some steps toward Re-envisioning the district footprint, but the process stalled without action. During Spring 2025, ACOE will provide significant support to the OUSD Board and staff to complete the Re-envisioning plan. This is the last opportunity to support the Board to make its own decisions on its own self-determined timeline of June 2025.

Actions to Ensure the District Meets its Financial Obligations

As mentioned above, the County Superintendent is required at this time to select from a list of legally mandated interventions as well as to take all actions that are necessary to ensure that the school district meets its financial obligations. The interventions below were selected to support the Board and Staff to complete their own 3R's process. Both Board and Staff have identified a need for more capacity and expertise for the Board to complete the "Re-envision" process, which is the last, best hope for the district to make decisions locally.

Per EC Section 42127.6(e), ACOE will:

- Assist in developing a financial plan that will enable the district to meet its future obligations. *Specifically, the county will support the district board to finalize a Re-envisioning plan that enables the district to meet its future obligations, both for educational equity and economic viability.*



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- Appoint a fiscal advisor to perform any or all of the duties prescribed above. *Specifically, the county will appoint an advisor (or team of advisors) dedicated to moving the Re-envisioning plan to completion by the end of 3Rs timeline of June 2025.*
- All actions that are necessary to ensure that the school district meets its financial obligations. *Specifically, the County, through the support of the fiscal advisor, trustee, and county superintendent of schools, will support OUSD Board and staff to streamline and focus Board decision making and staff implementation of the 3Rs process.*

OUSD will be the only California school district to have both a Fiscal Trustee and now a Fiscal Advisor. The Fiscal Advisor's scope is tailored to support the Board's Re-envisioning work through June 2025. For the last year I have spoken of OUSD as approaching a fork in the road. One path leads back to full local control: paying off the loan, exiting trusteeship, and embarking on a new era of sustainable community schools. The other path - one paved by refusing to make tradeoffs and by deferring hard decisions - leads quickly to another bankruptcy loan from the State and a forfeit of local decision-making authority. We are no longer approaching the fork, we have arrived at it. This spring will require an extraordinary push to make clear decisions toward a vision of a district that prioritizes educational efficacy, equity, and sustainability. The addition of the Fiscal Advisor is focused exclusively on supporting the Board to engage in meaningful and decisive re-envisioning supports this effort.

OUSD Next Steps (Technical Actions)

In the coming months, OUSD must continue to act to make new decisions, implement recent decisions, and sustain work toward ongoing commitments. In a three year budget cycle with multiple overlapping legal timelines, many things must happen at once: Actions are focused on following the Board approved OUSD Fiscal Sustainability Plan and grouped into:

- 1) Balance the 2025-26 Budget
 - a. By February 28, 2025,
 - i. Staff will fully implement the 2025-2026 budget solutions approved by the Board at the December 11, 2024 Board Meeting that do not require subsequent layoff or personnel action(s) by the Board.
 - ii. Staff will take the necessary action(s) to secure Board action on the remaining 2025-2026 budget solutions approved by the Board at the December 11, 2024 Board Meeting.
 - iii. Board will vote to approve staff recommendations or present and adopt equivalent budget solutions that alternatively address the \$95M deficit.
 - b. Ongoing,
 - i. Staff will meet with the Fiscal Trustee and ACOE to provide updates on progress towards balancing the 2025-26 budget.
 - ii. Staff will take actions to conserve cash to prioritize and extend its ability to meet payroll obligations to staff, including developing and refining 24-month cashflow projections.
- 2) Develop and Approve Recommendations for OUSD's future footprint by June 2025:
 - a. Immediately,
 - i. ACOE to appoint a Fiscal Advisor to support the Board with this re-envisioning process.
 - ii. Fiscal Advisor, with support from the OUSD Superintendent and County Superintendent, will establish a work plan that prioritizes the Board's time on the re-envisioning process and minimizes non-essential work through June 2025.



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- iii. In partnership with ACOE and Fiscal Trustee, OUSD leadership will execute work directed by the Fiscal Advisor to support the re-envisioning process.
- b. By June 30, 2025,
 - i. Board, with support from the Fiscal Advisor and OUSD Superintendent, to complete a citywide re-envisioning process for OUSD's future footprint. OUSD superintendent will assign staff support to complete this process.
 - ii. Board to approve a future footprint for OUSD that will be operationally sustainable for the foreseeable future.

ACOE is highlighting concerns in the following areas:

- *Unsustainable budget - The 2024-2025 operating budget has over \$959M in expenses planned, but only \$807M in revenues anticipated. This is a \$152M difference between money going out versus money coming in.*
- *Unfinished work to balance the 2025-2026 Budget - The 2025-2026 budget solutions approved by the Board on December 11, 2024 contained \$155.1M impacting personnel, some of which will require personnel actions to be approved by the end of February AND \$39M in one-time (temporary) budget solutions, meaning sizeable reductions will again be needed one year from now.*
- *Running Out of Cash - Without finishing the work to implement the 2025-2026 budget solutions, the District projects to run out of cash by an excess of \$30M as soon as November 2025.*
- *Increasing Deficits by Making Commitments Before Making Tradeoffs - The Board continues to approve compensation increases prior to approving budget reductions to pay for those compensation increases thereby continuing fiscal distress.*

Please see the attached report for details we wish to highlight for the Board in support of performing its fiduciary duty. We are standing by to support in every way possible.

In community,

Alysse Castro
Alameda County Superintendent of Schools

cc: Lisa Grant-Dawson, Chief Business Official, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, California Department of Education
Elizabeth Dearstyne, Director, California Department of Education
Dr. Linda Darling-Hammond, State Board President, State Board of Education
Michael H. Fine, Chief Executive Officer, Fiscal Crisis and Management Assistance Team
Luz Cázares, Fiscal Oversight Trustee, Oakland USD
Allan Garde, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District Business & Advisory Services, ACOE
Joan Laursen, Director III, District Business & Advisory Services, ACOE

2024-25 First Interim Review Oakland Unified School District

Revenue Projections:

Description: OUSD's LCFF Revenue continues to decline as enrollment and the corresponding Average Daily Attendance (ADA) decline. Further, in the District's LCFF revenue calculations, OUSD used a Cost-of-Living Adjustment (COLA) rate of 2.93% for 2025-26; however, per the Governor's 2025-26 State Budget Proposal, the COLA estimate for the fiscal year 2025-26 will be closer to 2.43% vs 2.93% as projected in the 2024-25 Enacted State Budget. The District should have contingency plans in place should the COLA be reduced.

COLA	2024-25	2025-26	2026-27
OUSD's LCFF Calculator (Revenue Projections)	1.07%	2.93%	3.08%
Governor's 2025-26 State Budget Proposal		2.43%	3.08%
LCFF Revenue Projections	2024-25	2025-26	2026-27
OUSD's Unrestricted LCFF Revenue (MYP)	\$476,096,833	\$484,732,772	\$500,626,720
ACOE's Estimates after adjusting OUSD's Calculator	\$476,096,833	\$482,425,515	\$498,235,900
Difference due to COLA adjustment only	0	(\$2,307,257)	(\$2,390,820)

Enrollment Projections:

Description: The District has been experiencing declining enrollment since 2017-18, with a five-year average annual decline of 1.31%. The chart below illustrates the enrollment projections according to the District's LCFF Calculator.

CALPADS	2024-25	2025-26	2026-27
Projections within the District's First Interim Report	33,814	33,646	33,478
Year-Over-Year Difference	(59)	(168)	(168)

Average Daily Attendance (ADA):

Description: The District projects LCFF revenue based on its declining enrollment and the three-year rolling average ADA funding calculation for 2024-25, with funding based on the projected Prior Year ADA for 2025-26 and 2026-27.

ADA Calculations for Revenue Forecasts	2024-25	2025-26	2026-27
Enrollment	33,814	33,646	33,478
Total Average Daily Attendance for the FY	30,606.73	30,454.67	30,302.59
Total Funded ADA	30,715.91	30,606.42	30,454.35
Funded ADA Option	3-PY Average	Prior Year	Prior Year

Deficit Spending, Decreases in Fund Balance, and Projected Reductions:

Description: The District's MYP includes significant budget reductions in 2025-26 and 2026-27 that have yet to be fully board-approved and implemented. If the reductions are not made, OUSD will have negative reserves beginning in 2025-26.

OUSD Multiyear Projection (MYP)	2024-25	2025-26	2026-27
Unrestricted General Fund - Beginning Balance	\$118,160,823	\$30,769,715	\$29,759,648
Unrestricted General Fund - Surplus/(Deficit)	(\$87,391,108)	(\$1,010,067)	\$363,648
Unrestricted General Fund - Ending Balance	\$30,769,715	\$29,759,648	\$30,123,296
Projected Budget Reductions included in MYP	\$0	(\$95,723,204)	(\$99,617,067)
Unrestricted General Fund - Ending Balance if Reductions NOT Made	\$30,769,715	(\$65,963,556)	(\$165,216,975)

Without implementation and following through with the required ongoing reductions, the expenditures would be added back to the budget, reducing fund balance.

Reserve for Economic Uncertainties (REU):

Description: Districts the size of OUSD are required to meet 3% minimum required reserves.

RESERVES	2024-25	2025-26	2026-27
Is REU Met or Not Met in Submitted Financial Report?	Met	Met*	Met*
Amount of Revenue that the LEA may not receive if COLA is lower		(\$2,307,257)	(\$2,390,820)
Is REU Met or Not Met if COLA is decreased?	Met	Not Met	Not Met

Amount of Projected Budget Reductions in Submitted Financial Report*		(\$95,723,204)	(\$99,617,067)
Is REU Met or Not Met if budget reductions NOT made?	Met	Not Met	Not Met

Cash Balance:

Description: Districts require sufficient cash balances at all times to meet obligations. Cash is related to, but not the same as Fund Balance. Per the District's projections, OUSD will have negative cash in November 2025, and will end the 2025-26 fiscal year in a negative cash position, unless the budget reductions are implemented.

OUSD Cash Projections	2024-25	2025-26	2026-27
June Ending Cash Balances projected in SACS	\$101,966,583	n/a	n/a
June Ending Cash Balances projected in Projection Pro		(\$32,390,232)	(\$163,525,695)

Required Board Action:

Description: The OUSD board approved Resolution No. 2425-0129A in December 2024, reflecting budget adjustments of \$67.5 million ongoing and \$39 million one-time. However, staff have projected \$95.7 million in ongoing reductions in 2024-25 and an additional \$99.6 million in 2026-27 at First Interim, not including the additional amount that may be needed should the COLA not be funded at levels projected within the District's First Interim MYP. Further Board action is required.

Required Board Action Budget Reductions and/or Revenue	2024-25	2025-26	2026-27
OUSD's Unrestricted Reductions - Source: MYP		(\$95,723,204)	(\$99,617,067)
Total Needed Budget Reductions/Adjustments in Submitted Report		(\$95,723,204)	(\$99,617,067)
<i>Should the COLA not be funded at current projections within the District's financial report</i>			
Required Board Action Budget Reductions and/or Revenue	2024-25	2025-26	2026-27
OUSD's Unrestricted Reductions - Source: MYP		(\$95,723,204)	(\$99,617,067)
Amount of Revenue that the LEA may not receive if COLA is lower		(\$2,307,257)	(\$2,390,820)
Total Needed Budget Reductions/ Adjustments if COLA is reduced		(\$98,030,461)	(\$102,007,887)

Conclusion:

The District's First Interim Report does not include the impact of the Governor's estimated 2025-26 COLA factor. Should the COLA factor be reduced as projected, the District will be required to *not only* implement the \$95.7 million in ongoing budget reductions in 2025-26 and the additional \$99.6 million 2026-27, but further reductions will be needed.

Next Steps:

The District Board and staff are expected to approve and implement budget-balancing solutions before February 2025.