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Enactment Number	21-1783
Enactment Date	11/13/2021 er



**OAKLAND UNIFIED
SCHOOL DISTRICT**
Community Schools, Thriving Students

Board Cover Memorandum

To Board of Education

From Kyla Johnson-Trammell, Superintendent
Lisa Grant-Dawson, Chief Business Officer
Joshua R. Daniels, Chief Governance Officer

Meeting Date November 13, 2021

Subject Resolution No. 2122-0022 - Appealing the Lack of Going Concern Determination

Ask of the Board Approval by the Board of Education of Resolution No. 2122-0022 - Appealing the Lack of Going Concern Determination

Background On November 8, 2021, the District received approval of its 2021-22 Adopted Budget from Alameda County Superintendent L.K. Monroe. However, as part of the same letter in which she approved the District’s 2021-22 Adopted Budget, Superintendent Monroe determined that the District is a “Lack of Going Concern” pursuant to Education Code section 42127.6, subdivision (a). That statute states, in relevant part:

If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years or if a school district has a qualified or negative certification . . . , the county superintendent of schools shall provide a written notice of going concern determination to the governing board of the school district and the Superintendent and the basis for the determination. The notification shall include the assumptions used in making the determination and shall be available to the public.

Under Education Code section 42127.6, the county superintendent shall propose to undertake at least one of seven specified actions and delineate any other actions that the county superintendent believes are necessary to ensure that the school district meets its financial obligations.

Education Code section 42127.6, subdivision (b), permits OUSD to appeal (i) the basis of the Lack of Going Concern determination and (ii) each of the proposed actions to the State Superintendent within five days of receiving notice of the determination. That deadline is November 13, 2021.

Discussion The Resolution directs the Superintendent or Chief Governance Officer to file an appeal, on behalf of the District, with the State Superintendent. The appeal would challenge (i) the basis of the Lack of Going Concern determination and (ii) each of the proposed actions to the State Superintendent. The Resolution delegates the details of the appeal and the specific arguments to be made in the appeal to the Superintendent and Chief Governance Officer.

Fiscal Impact N/A

Attachment

- Resolution No. 2122-0022 - Appealing the Lack of Going Concern Determination
- November 8, 2021 Letter from Alameda County Superintendent L.K. Monroe titled "RE: 2021-22 Adopted Budget - Approval with Lack of Going Concern Determination"

**RESOLUTION OF THE
BOARD OF EDUCATION OF THE
OAKLAND UNIFIED SCHOOL DISTRICT**

Resolution No. 2122-0022

Appealing the Lack of Going Concern Determination

WHEREAS, Alameda County Superintendent L.K. Monroe has issued the District a Lack of Going Concern determination pursuant to Education Code section 42127.6;

WHEREAS, Alameda County Superintendent L.K. Monroe has specified the actions that she proposes to initiate under Education Code section 42127.6;

WHEREAS, Education Code section 42127.6, subdivision (b), permits OUSD to appeal to the State Superintendent challenging (i) the basis of the Lack of Going Concern determination and (ii) each of the proposed actions to the State Superintendent; and

WHEREAS, the deadline to file the appeal is November 13, 2021.

NOW, THEREFORE, BE IT RESOLVED, the Board hereby directs the Superintendent or Chief Governance Officer to file an appeal, on behalf of the District, with the State Superintendent challenging (i) the basis of the Lack of Going Concern determination and (ii) each of the proposed actions to the State Superintendent; and

BE IT FURTHER RESOLVED, the Board delegates the details of the appeal and the specific arguments to be made in the appeal to the Superintendent and Chief Governance Officer.

PASSED AND ADOPTED by the Board of Education of the Oakland Unified School District this 13th day of November, 2021, by the following vote:

PREFERENTIAL AYE: None

PREFERENTIAL NOE: None

PREFERENTIAL ABSTENTION: None

PREFERENTIAL RECUSE: None

AYES: Aimee Eng, VanCedric Williams, Gary Yee, Mike Hutchinson, Vice President Benjamin "Sam" Davis, President Shanthi Gonzales

NOES: None

ABSTAINED: None

RECUSED: None

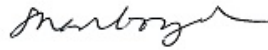
ABSENT: Samantha Pal (Student Director), Natalie Gallegos Chavez (Student Director)

CERTIFICATION

We hereby certify that the foregoing is a full, true and correct copy of a Resolution passed at a Special Meeting of the Board of Education of the Oakland Unified School District held on 13th day of November, 2021.

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By:	er

OAKLAND UNIFIED SCHOOL DISTRICT



Shanthi Gonzales
President, Board of Education



Kyla Johnson-Trammell
Superintendent and Secretary, Board of Education



November 8, 2021

Shanthi Gonzales, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2021-22 Adopted Budget - Approval with Lack of Going Concern Determination

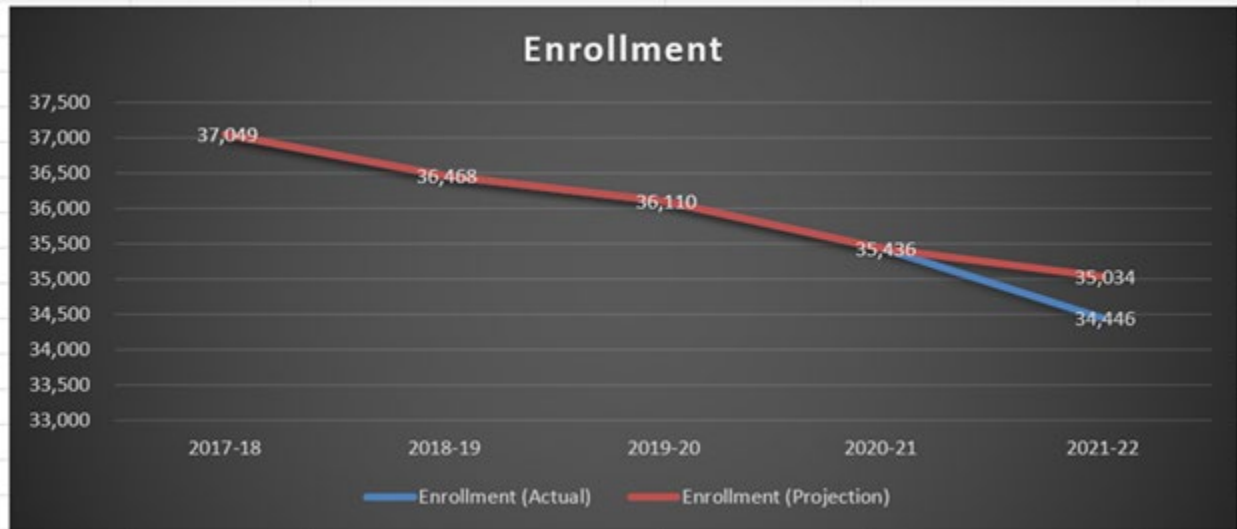
Dear President Gonzales:

In accordance with California Education Code (EC) Section 42127, the Alameda County Office of Education (ACOE) has completed its review of the 2021-22 Adopted Budget of the Oakland Unified School District (OUSD). ACOE's review is intended to determine whether the budget complies with the criteria and standards adopted by the State Board of Education and allows the District to meet its financial obligations for the 2021-22 fiscal year, as well as satisfy its multi-year financial commitments with adequate and reasonable assurances.

Final approval of the Adopted Budget was contingent upon OUSD completing the four (4) items outlined in the Conditional Approval letter. Based on ACOE's analysis of the information submitted, and our assessment of the District's recent board action on November 3, 2021, the District's 2021-22 budget is approved. However, due to the significant level of budgetary reliance on one-time revenue sources and the lack of adequate assurances that fiscal solvency is certain in future years, it has been determined that the District is a Lack of Going Concern with this budget approval. ACOE's continued concerns and the implications of this determination are discussed below.

Declining Enrollment

The District continues to decline in enrollment from both the prior year and from its 2021-22 Adopted Budget Projections:



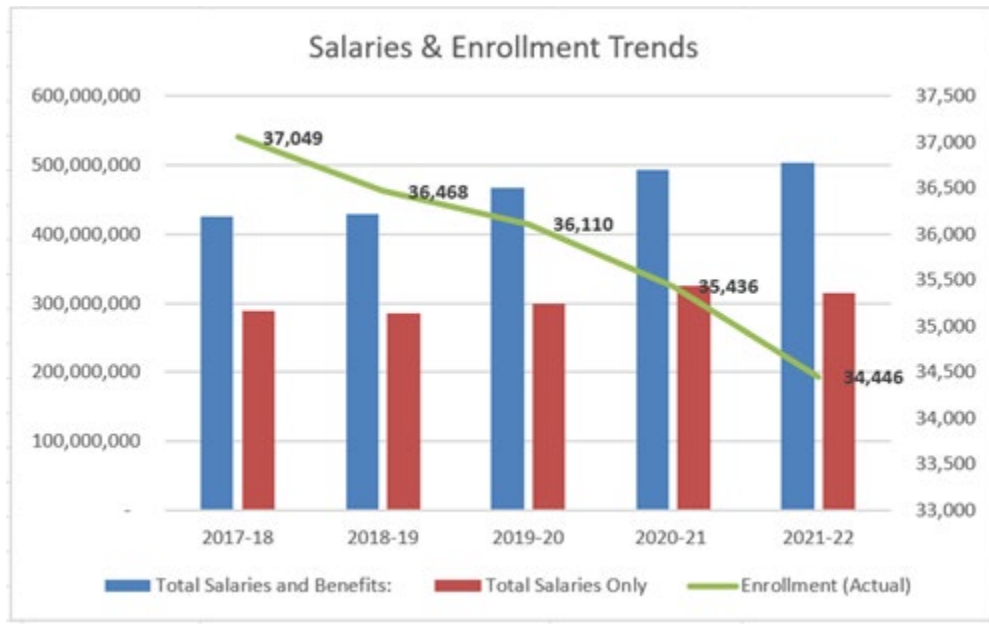
District's Full-Time Equivalent (FTEs) do not account for Enrollment Changes

(As reported in District's 2021-22 Adopted Budget Criteria & Standards)

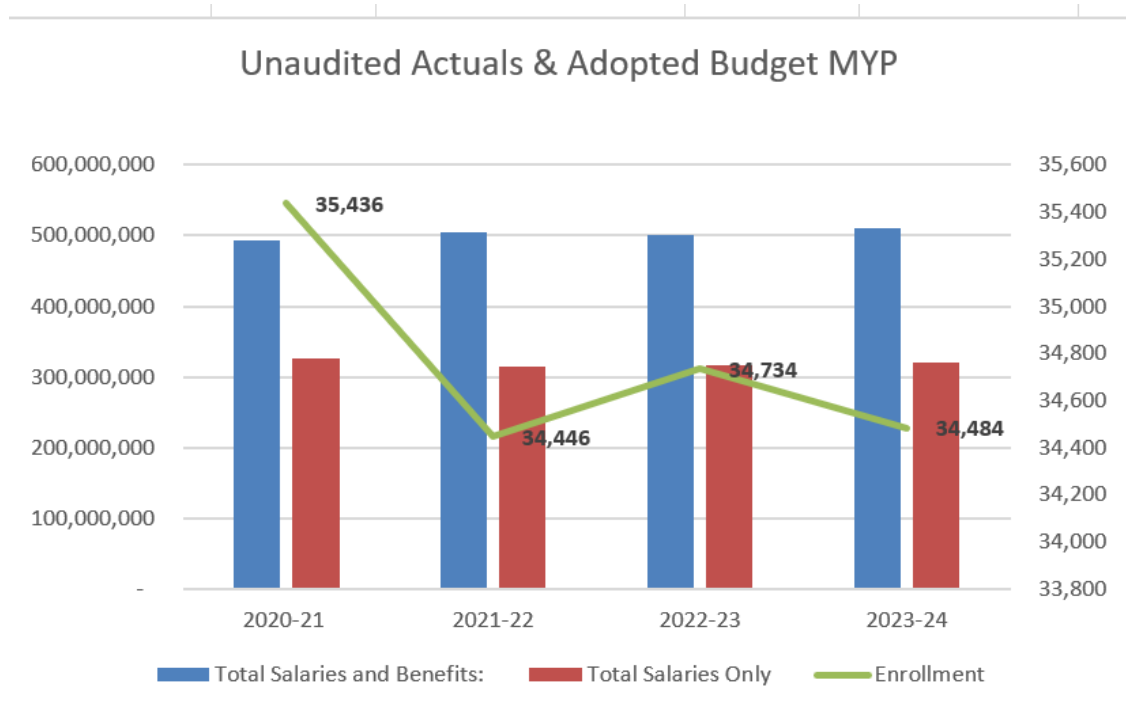
It is typical to see a district adjust its staffing levels to account for declines in student enrollment. As noted in the chart below, the District increased its staffing in 2020-21 and continues to maintain these same staffing levels in 2021-22 through 2023-24. Because student enrollment and average daily attendance (ADA) drive a major revenue source for OUSD, it is concerning that staffing levels are projected to increase when student enrollment is significantly declining.

	2020-21	Change	2021-22	Change	2022-23	Change	2023-24	Change
FTE Certificated Non-Management	2,645.0	105	2,750	-	2,750	-	2,750	-
FTE Classified Non-Management	1,703.1	17	1,720	-	1,720	-	1,720	-
FTE Management	497.9	2	500	-	500	-	500	-
Total FTE	4,846	124	4,970	-	4,970	-	4,970	-

OUSD's General Fund Salaries and Benefit Expenditures are compared to OUSD's Enrollment Trends below. The District's Salaries, as well as Salaries and statutory Benefit costs, continue to increase as the District's enrollment (revenue generation) is declining. Salary and Benefit costs will continue to go up for the District, while its general funding will continue to decrease due to its decline in enrollment. The chart below reflects the District's actual salary and benefit costs through 2020-21, as well as its proposed budgetary costs, while the District has reported a loss of 2,603 students since 2017-18.



The diagram below demonstrates the District’s Adopted Budget Multi-Year Projection, not including the District’s \$20.4 million in ongoing expenditure reductions that was approved on November 3, 2021. The District’s actual enrollment numbers for 2020-21 and 2021-22 enrollment figures as of October 27, 2021 are used, as well as OUSD enrollment projections for 2022-23 and 2023-24.



**The enrollment growth projected to 2022-23 may not materialize. This chart does not account for any salary/negotiation increases.*

Unrecorded Liabilities

The District does not record its Health Benefits Governing Board (HBGB) liability in its financials. As reported in OUSD’s 2019-20 Audit report, Audit Finding 2020-05, “the impact of the "HBGB" on the District's financial position is not objectively determinable as of June 30, 2020” and at this time, OUSD does not appear to have reserves designated to address HBGB.

Citywide Plan

On October 27th, the OUSD board approved resolution 2021-0128D, which approved \$6 Million in ongoing General Fund expenditure reductions for 2022-23 to address the ongoing savings that would have been realized had the District implemented the Cohort 3 merger/ site closures. The Board requested the “Superintendent to provide additional details no later than November 17th, 2021, regarding the effect and implementation” of the reductions outlined in the resolution.

As outlined in AB1840, “for the 2021–22 fiscal year, up to 25 percent of the school district’s projected operating deficit...” would be disbursed to OUSD contingent upon OUSD’s completion of activities specified in the prior year Budget Act to improve the school district’s fiscal solvency. As stated in the Legislation, “these activities may include, but are not limited to all of the following:

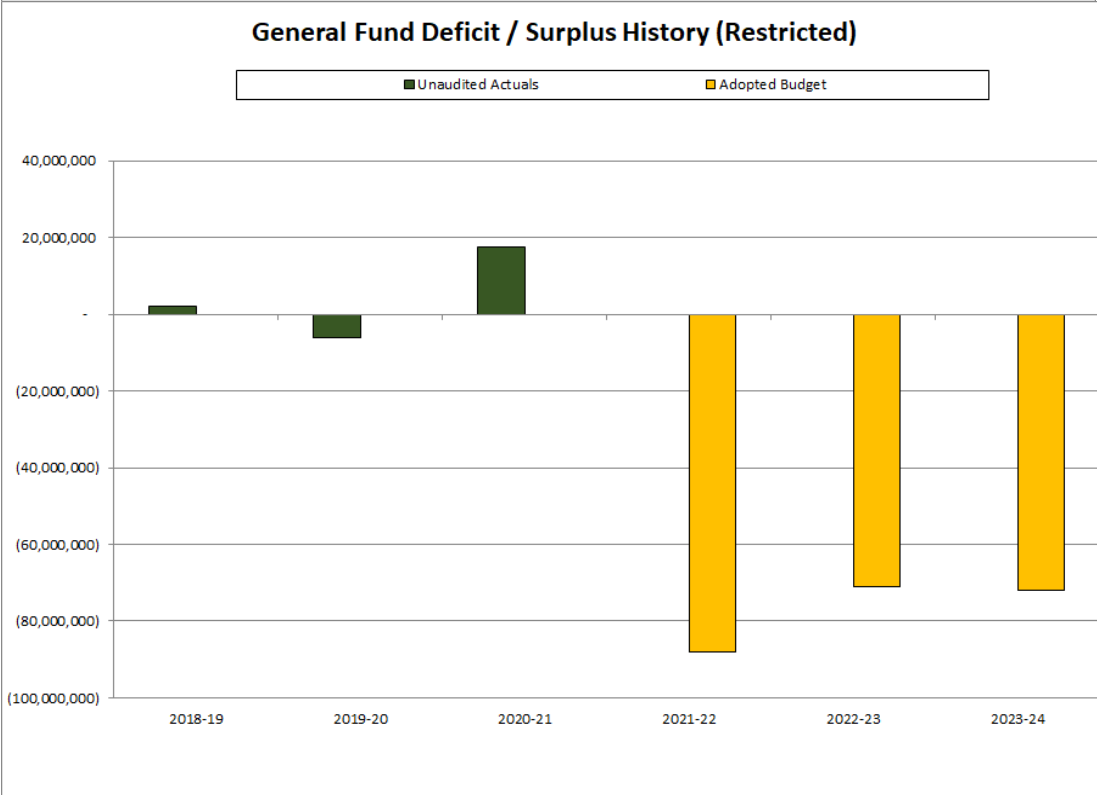
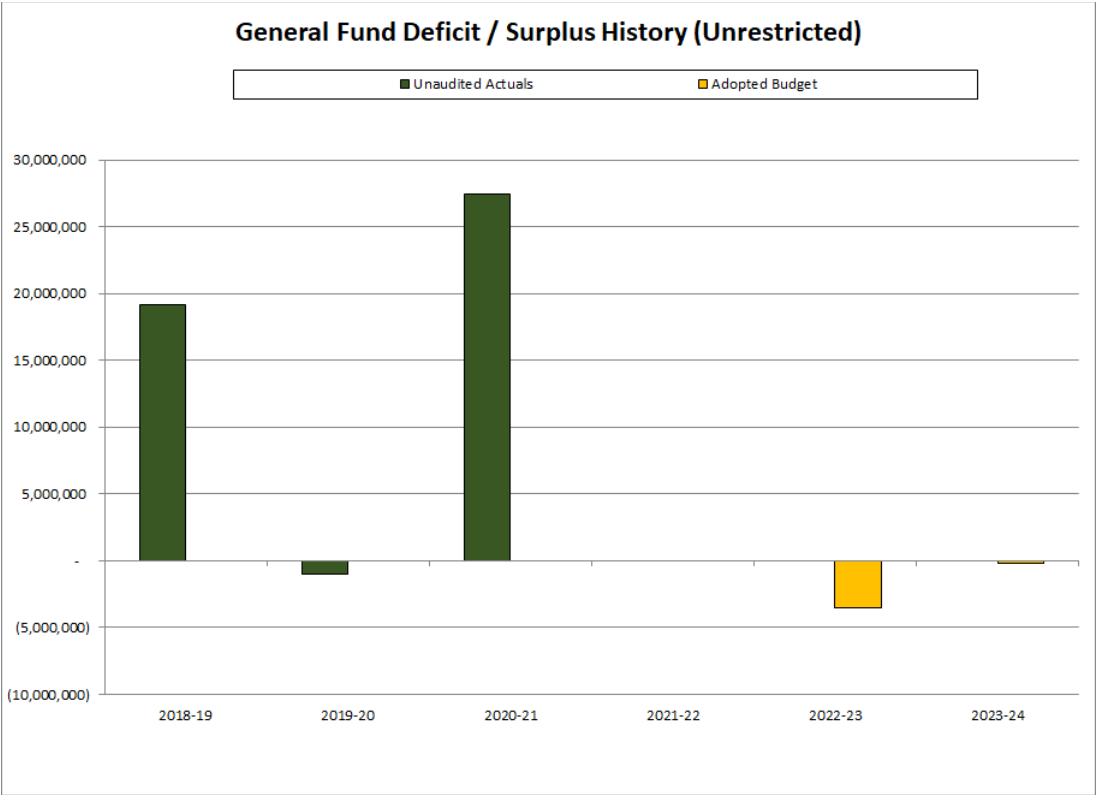
- (1) Completion of comprehensive operational reviews that compare the needs of the school district with similar school districts and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability.
- (2) Adoption and implementation of necessary budgetary solutions, including the consolidation of school sites.
- (3) Completion and implementation of multiyear, fiscally solvent budgets and budget plans.
- (4) Qualification for positive certification pursuant
- (5) Sale or lease of surplus property.
- (6) Growth and maintenance of budgetary reserves.”

Based on the Board’s lack of progress in Advancing the District’s Citywide Plan work, the District appears ineligible for the next AB1840 disbursement.

District’s Structural Deficit

The following two graphs show Oakland USD’s Surplus / Deficit spending trend in the Unrestricted and Restricted General Fund. Fiscal Years 2018-19 through 2020-21 represent Unaudited Actuals, and Fiscal Years 2021-22 through 2023-24 are the District’s projections per the MYP submitted with the 2021-22 Adopted Budget. The charts below include Resolution 2122-0020, reflecting the impact of \$20.4 million in ongoing reductions.

While the District historically shows minimal deficit spending in the Restricted General Fund, the deficit spending is projected to increase for the current and subsequent two fiscal years, due to the influx of one-time COVID relief funding. In addition, the District projects increased deficit spending in the Unrestricted General Fund, not accounting for the recent enrollment declines since its Adopted Budget projections.



The District's Multi-Year Projection

The District's favorable difference between ACOE's Adopted Budget Review and OUSD's projections was because the District applied *ongoing Multi-year reductions* in its Multi-Year Projection (MYP), as compared with ACOE's analysis. The result was OUSD included ongoing staffing reductions in its MYP associated with the Board's approval of Resolution No. 21-0254 "Bridge Plan" of \$20.4 million of one-time funding. However, with the Board's recent approval of 2122-0020, on November 3, 2021, OUSD's Board has acknowledged their intent to review and take action to address the positions funded by one-time sources.

The OUSD's Board "declares that [it] is fully aware of the need to and agrees to adopt its multi-year budget such that all positions funded with just one-time funds shall not carryover unless (i) new one-time funds are identified or (ii) the positions shift to being funded with ongoing revenue and the budget includes offsetting reductions elsewhere in the budget." While the District's resolution is insightful, more progress is needed towards the full implementation of budget-balancing solutions that do not rely on one-time funding solutions.

One-Time Dollars for Ongoing Expenditures

Based on the District's Conditional Approval Response, OUSD budgeted the following one-time carryover as follows: \$85 Million of one-time expenditures in 2021-22, \$64 Million in one-time expenditures in 2022-23, and \$62 Million in one-time expenditures in 2023-24. The Board has acknowledged its commitment to address all ongoing expenditures that are funded by one-time dollars in its November 3, 2021 Resolution and has identified \$20.4 Million in FTEs funded by one-time sources. However, if the Board is unable to identify and remove the \$60 plus million in ongoing COVID expenditures in the out years, and budget reductions and/or solutions are not timely identified and acted upon, the District will go insolvent.

OUSD's Board Action

In addition to the \$20.4 Million in ongoing reductions applied to the District's Adopted Budget MYP, the District has committed an additional \$6 Million in budget-balancing solutions to address Cohort 3, as well as the ongoing \$60 plus Million in COVID expenditures projected annually through 2023-24. In prior instances, board resolutions have been approved to reduce expenditures, but corollary actions to ensure the effective implementation of such reductions have not occurred with fidelity. The need for the OUSD to balance the budget has been consistently communicated since 2016-17. In this time period, the Governing Board has been unable to ensure solutions are in place to adequately meet the fiscal needs of the District.

Of most recent concern is the heavy reliance on one-time funding sources as a reasonable solution to address the District's ongoing structural deficit. It is recommended practice for LEAs to develop long-term fiscal strategic plans addressing both key investments focused on student success as well as plans for confronting any structural deficits to avoid relying on short-term solutions and funding, to maintain fiscal solvency. If the OUSD Board is unable to collectively agree on solutions to address and implement the \$90 Million in required reductions within a

timely manner, the fiscal shortfall for OUSD is likely too difficult for OUSD to address in a short time frame absent County intervention.

We remain seriously concerned as OUSD's current budgetary approach nearly caused the district to go bankrupt in 2017. AB1840 was implemented to give the Governing Board an opportunity to develop a long-term plan for balancing the District's budget as enrollment continued to decline. Unfortunately, opportunities have been missed to take advantage of the additional funding as a method to gradually bring the budget into balance over a set period of time. As a result, fiscal distress continues to be a challenge and was noted in the March 1, 2021, FCMAT letter to the Governing Board. The FCMAT letter also noted that more intensive intervention would be needed in the coming months by ACOE in order to ensure that OUSD remains fiscally solvent. We concurred with FCMAT's assessment and believe that those additional support structures are now required to be implemented. Because the District has yet to develop budget-balancing solutions that do not rely on one-time funding solutions, and because there is an increased level of fiscal solvency uncertainty, ACOE will now provide more intensive intervention and support to the District as permitted by Education Code 4127.6, with a particular focus on remedial actions (B, F, and G) in the Lack of Going Concern section below.

Indicators of Potential Insolvency

As a part of ACOE's AB 1200 oversight, ACOE regularly reviews the [15 indicators](#) of risk or potential insolvency. Each item listed indicates a lack of function, commitment, or attention to one or more critical elements of a local educational agency's (LEA) operations, which may eventually contribute to an LEA's insolvency. The existence of any one of the indicators increases the risk of potential insolvency and the need for assistance from outside agencies. Lack of attention to the indicators significantly increases any school district's likelihood of financial insolvency and loss of local control.

Listed below are the indicators that remain a concern for ACOE as it relates to the District's fiscal and operational progress.

1. Budget Development
2. Budget Monitoring/Updates
3. Cash Management
4. Deficit Spending
5. Unfunded Liabilities for Employee Benefits
6. Enrollment and Attendance Reporting
7. Internal Controls

8. Leadership and Communication
9. Multi-year Planning
10. Position Control
11. Related Issues of Concern
 - a. Annual Independent Audit Report contains material apportionment or internal control findings

LACK OF GOING CONCERN

As required in EC 4127.6, this letter shall serve as written communication to the OUSD Board outlining ACOE's concerns that OUSD may not meet its financial obligations for the current and subsequent fiscal years. As required in legislation, "the county superintendent of schools shall report to the Superintendent on the financial condition of the School District and the County Superintendent's proposed remedial actions and *shall do at least one of the following* and all actions that are necessary to ensure that the school district meets its financial obligations:

(A) Assign a fiscal expert, paid for by the county superintendent of schools, to advise the school district on its financial problems.

(B) Conduct a study of the financial and budgetary conditions of the school district that includes, but is not limited to, a review of internal controls. If, in the course of this review, the county superintendent of schools determines that the county superintendent's office requires analytical assistance or expertise that is not available through the school district, the county superintendent of schools may employ, on a short-term basis, with the approval of the Superintendent, staff, including certified public accountants, to provide the assistance and expertise. The school district shall pay 75 percent and the county office of education shall pay 25 percent of these staff costs.

(C) Direct the school district to submit a financial projection of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years as the county superintendent of schools requires.

(D) Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.

(E) Direct the school district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the school district may not be able to meet its financial obligations.

(F) **Withhold compensation** of the members of the governing board of the school district and the school district superintendent for failure to provide requested financial information. This action may be appealed to the Superintendent pursuant to subdivision (b).

(G) **Assign the County Office Fiscal Crisis and Management Assistance Team (FCMAT) to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers,** and the extent of teacher misassignment in the school district, to provide the school district with recommendations to streamline and improve the teacher hiring process, teacher retention rate, extent of teacher misassignment, and provision of highly qualified teachers, and to perform any or all of the duties prescribed in subparagraphs (A) to (C), inclusive, or to further review the causes that led to a finding of moderate or high risk of intervention pursuant to subdivision (a) and recommend corrective action. If a review team is assigned to a school district, the school district shall follow the recommendations of the team, unless the school district shows good cause for failure to do so. The County Office Fiscal Crisis and Management Assistance Team may not recommend an action that would abrogate a contract that governs employment.”

ACOE has determined that out of the above list, actions B, F, and G will initially be implemented as a response to the Lack of Going Concern designation with the technical expert team primarily focusing on supporting the District with (1) budget development, monitoring, and oversight, (2) governance, and (3) district leadership and oversight.

Fiscal Health Risk Analysis

Because the District has received not only three qualified certifications in the past three years, but also a Lack of Going Concern assignment, our office will work closely with FCMAT to support in the efforts to complete a comprehensive Fiscal Health Risk Analysis for OUSD.

Conclusion

ACOE has received OUSD’s Board Resolution No. 2122-0020 that requests ACOE reconsider the December 15th deadline to provide ACOE with its Board-approved revenue enhancements and/or budget reductions to address all positions funded by one-time sources. This request serves to heighten ACOE’s concern as OUSD’s need to act on budget-balancing solutions has been well communicated in [letters](#) from this office informing the OUSD Board of the urgent need to commit to such reductions. However, because ACOE’s highest priority is for OUSD to sustain progress toward short and long-term fiscal viability, a 6-week extension will be granted. As a result, ACOE is requiring the District to provide its Board-approved, budget-balancing solutions on or before **January 31st, 2022**.

As a condition of this extension, the County Superintendent will assign and provide the District additional technical support and assistance to effectively achieve this goal. ACOE will assign a technical expert team to the District to ensure that this goal is met. The Board is encouraged to ensure that the technical expert professional(s) receive access to requested material in a timely and appropriate manner. In accordance with EC 4127.6 (F), should OUSD not meet this

requirement, ACOE must withhold governing board and superintendent compensation until the requested information is received.

The Fiscal Oversight Trustee, as well as Dr. Candi Clark, ACOE Associate Superintendent of Business Services, will continue to meet with the Governing Board, Superintendent, and leadership team, to ensure the Governing Board develops its detailed and comprehensive list of budget-balancing solutions and corresponding supporting documentation. As conveyed above, ACOE requires OUSD's list of specifically documented, **board-approved budget-balancing solutions**, as well as their timeline of implementation on or before **January 31, 2022**. If OUSD's fiscal status, as monitored by the Fiscal Oversight Trustee and ACOE results in additional requirements under current law, ACOE will immediately inform the District.

ACOE anticipates the receipt of OUSD's 2021-22 First Interim Budget Report and is hopeful that it will reflect the necessary progress to demonstrate significant advancement toward OUSD's sustained fiscal health. Feel free to contact me or Dr. Candi Clark with any questions as we continue to work collaboratively to ensure both the fiscal and educational success of OUSD.

Sincerely,



L. K. Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Kyla Johnson-Trammell, Superintendent, Oakland USD
Lisa Grant-Dawson, Chief Business Official, Oakland USD
Preston Thomas, Chief Systems and Service Officer, Oakland USD
Joshua Daniels, Chief Governance Officer, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Jessica Holmes, California Department of Finance
Michael Fine, Chief Executive Officer, FCMAT
Luz Cazares, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District & Business Advisory Services, ACOE
Natalie Cardaniuc, Director II, District Advisory Services, ACOE

Attachments:

FCMAT 15 Indicators of Potential Insolvency
ACOE's correspondence to OUSD board for 2020-21



November 6, 2020

Jody London, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2020-21 Adopted Budget Approval & Collective Bargaining Review

Dear President London:

As communicated in our letter dated September 15, 2020, the Alameda County Office of Education (ACOE) conditionally approved the 2020-21 Adopted Budget of the Oakland Unified School District (OUSD). Final approval of the Adopted Budget was contingent upon OUSD completing the two (2) items listed below and ACOE's subsequent analysis of those items.

1. District's submission of the 2019-20 Unaudited Actuals report by the required deadline of September 15 with an ending fund balance at, or near, the projection included in the Estimated Actuals;
2. Revision to the District's 2020-21 Multi-Year Budget Projection that includes the fiscal impact of all collective bargaining agreements approved by the Board, as well as the impact of any corresponding "me toos."

In accordance with Education Code (EC) Section 42127 (d)(3), on or before October 8, the Board shall review and respond to the recommendations of the County Superintendent of Schools at a regular meeting of the Board. OUSD staff communicated to ACOE the delay in the Board's response due to the timing of the regularly scheduled meeting in October 2020. The District's response to the conditional approval was approved by the board on October 14, 2020. By statute, ACOE is required to make a final determination regarding approval or disapproval by November 8, 2019.

Adopted Budget and Revised Multi-Year Budget Projection

OUSD's Unaudited Actuals Report was received by ACOE by the statutory deadline of September 14, 2020, and ACOE subsequently conducted a review of the report as submitted. The ending fund balance in the Unaudited Actuals report was more favorable to the District than the balance at Estimated Actuals, resulting in an increase of \$4.56 million to the Unrestricted General Fund.

The District’s revised 2020-21 Multi-Year Budget Projection disclosed on October 14, 2020, includes recent amendments, a budget tightening to both the Unrestricted and Restricted programs, as well as the fiscal impact of all recent settlements as of June 2020.

ACOE has reviewed and responded to the OUSD Board and community with its July 29, 2020 letter addressing the public disclosure between OUSD and UAOS, AFSCME, and the Unrepresented. OUSD has incorporated the impact of these settlements in its revised 2020-21 MYP.

Collective Bargaining Agreements – MOU with OEA and SEIU & AFSCME Side letters

Oakland USD has actively worked to ensure stakeholder engagement, mitigate learning loss, and to implement the Governor’s Pandemic Plan for Learning and Safe Schools for the 2020-21 school year with its recent MOU and Side Letter Agreements.

20-1854 - Memorandum of Understanding OEA

Oakland Unified School District and the Oakland Education Association (OEA) in its recent Memorandum of Understanding (MOU) recognized the importance of maintaining safe learning opportunities for the benefit of students and communities served by the District and its certificated staff.

20-1893 – Side Letter SEIU Local 1021

The Side Letter of Agreement between the Service Employees International Union (SEIU Local 1021) and Oakland Unified School District regarding the impacts of the COVID-19 pandemic during the Fall of 2020.

20-1893 – Side Letter AFSCME

The Side Letter Agreement between the American Federation of State, County, Municipal Employees (AFSCME), and Oakland Unified School District regarding the impacts of the COVID-19 pandemic and the Governor’s Pandemic Plan for Learning and Safe Schools for the 2020-2021 school year.

The combined fiscal impact of these agreements per OUSD’s recent public disclosure are as follows:

Description	2020-21	2021-22	2022-23
One-time Impact	\$2,060,959	\$0	\$0
Ongoing Impact	0	0	0
Total	\$2,060,959	\$0	\$0

The District will address the financial impact of these recent agreements with the one-time CARES Funding that has been provided to help support LEAs with direct COVID related expenses and to mitigate learning loss.

Cash Flow

ACOE has been actively engaged with OUSD regarding OUSD's fall loan from the County Treasurer, as well as the District's ability to navigate the State Apportionment Deferrals scheduled in Spring 2021. Due to receipt of one-time Learning Loss Mitigation Funds in September 2020, OUSD did not require a fall loan as it has in prior years. Like many LEAs across the state, OUSD will participate in the State Tran pool to support the District's cash needs during the deferred state apportionments from February 2021 through November 2021.

Adopted Budget Approval

In conclusion, based on ACOE's review of OUSD's Conditional Approval response which addressed the two (2) items mentioned above, as well as provided an updated cash flow projection, ACOE determined that OUSD has met all the conditions for approval. Therefore, OUSD's 2020-21 Adopted Budget is *approved*.

To help ensure OUSD continues on its path toward fiscal sustainability, and as approved by the OUSD board with its revised MYP in its Conditional Approval response, ACOE requests the \$16 million in ongoing budget-balancing solutions for 2021-22 be identified and included no later than the District's Second Interim Budget Report, due to ACOE on March 15, 2021.

We appreciate OUSD's ongoing assistance during this process and look forward to reviewing the 2020-21 First Interim Budget Report. Please feel free to contact me with any questions as we continue to work collaboratively to ensure both the fiscal and educational success of OUSD.

Sincerely,



L. Karen Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Kyla Johnson-Trammell, Superintendent, Oakland USD
Lisa Grant-Dawson, Chief Business Official, Oakland USD
Preston Thomas, Chief Systems and Service Officer, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Michael Fine, Chief Executive Officer, FCMAT
Chris Learned, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Charles Faulkner, Interim Chief of District & Business Advisory Services, ACOE
Shirene Moreira, Director II, District Advisory Services, ACOE



January 14, 2021

Shanthi Gonzales, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2020-21 First Interim Budget Report

Dear President Gonzales,

The Oakland Unified School District (OUSD) filed a QUALIFIED certification of the District's 2020-21 First Interim Budget Report with the Alameda County Office of Education (ACOE). In accordance with Education Code (EC) Section 42131, ACOE reviewed the First Interim Budget Report, based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127.

Based on ACOE's review and analysis, the First Interim Budget Report approved by OUSD's Governing Board (Board) on December 9, 2020, accurately reflects the financial status of the district. ACOE, therefore, concurs with the District's QUALIFIED certification with our comments outlined below.

LCFF Revenue Projections

As expressed during the review of OUSD's 2020-21 Adopted Budget, OUSD does not use the District's most current Average Daily Attendance (ADA) figures to calculate their LCFF revenue projections. OUSD revised its 2019-20 P-2 Attendance report in August 2020 which lowered the District's ADA from 33,897.24 to 33,698.68. Due to the hold-harmless ADA provisions applied to fiscal year 2020-21, this ADA reduction negatively impacts the funding for both 2019-20 and 2020-21. And like many LEAs across the state, OUSD is experiencing a decline in enrollment. While LEAs do have a hold-harmless provision for ADA, Districts are funded based on current year enrollment data for their Supplemental and Concentration pupils. As OUSD has a high Unduplicated Pupil Percentage (UPP), any downward adjustment to this ratio will adversely impact the district. The District's current CALPADS reported data shows Total Enrollment as 32,943, and a UPP of 24,458, as compared to the District's First Interim LCFF Calculator that reports 35,366 and 27,353, respectively. Because OUSD used the higher reported ADA figure in their LCFF Calculator, coupled with increased enrollment and UPP ratios, as well as an applied COLA factor of .60% to 2021-22 and .70% to 2022-23, the District's LCFF Revenue projections appear overstated when compared to ACOE's projections. ACOE's projections are based on OUSD's most recent 2019-20 certified attendance report, current reported CALPADS figures, and FCMAT's most recent LCFF Calculator that includes a 0% COLA for the current and subsequent two fiscal years.

The effect of this ADA and UPP difference to 2020-21, combined with the added COLA factor of .60% in 2021-22 and .70% in 2022-23, are presented below:

	FY 19-20	FY 20-21	FY 21-22	FY 22-23
REVENUES				
ACOE: LCFF Sources	\$379,588,084	\$377,547,523	\$371,641,295	\$370,844,031
OUSD: LCFF Sources	\$379,587,970	\$381,933,315	\$380,886,057	\$389,600,222
	114	(4,385,792)	(9,244,762)	(18,756,191)

Multi-Year Budget Projection (MYP) – District’s Required Cuts

OUSD’s 2020-21 First Interim Multi-year Budget Projection (MYP) includes unidentified ongoing expenditure reductions of \$16 million in 2021-22, with an additional \$20 million to 2022-23. OUSD’s MYP further includes salary adjustments that result in a combined ongoing salary reduction of \$14.8 million in fiscal year 2021-22, as well as an additional \$1.1 million in ongoing certificated salary reductions to 2022-23. With the implementation of these expenditure reductions and/or revenue enhancements, OUSD is projected to deficit spend in its Unrestricted General Fund \$874,279 in 2020-21 and \$8.7 million in 2022-23. This projected deficit may be understated as it does not incorporate the LCFF revenue variance as noted above. While the District’s submitted MYP demonstrates the ability to meet its minimum Reserve for Economic Uncertainties for the current and subsequent fiscal years, this will only be achieved with the District’s continued fidelity in implementing budget-balancing solutions.

Health Benefits and Governing Board (HBGB)

As mentioned at Adopted Budget, ACOE understands there may be an unrecognized HBGB liability for the District, and it is recommended the District work toward designating a portion of its fund balance to address this potential obligation. Once this amount is confirmed, ACOE expects to see a designation in the District’s fund balance to address this obligation.

Fiscal Vitality Plan Progress

In December 2017, OUSD approved a Fiscal Vitality Plan for the District through June 30, 2020 that was based on a 2017 Fiscal Crisis and Management Assistance Team (FCMAT) Fiscal Health Risk Analysis. While critical progress on the Fiscal Vitality Plan has been made, and accelerated in part due to the collaboration with ACOE for intensive support and technical assistance, much work is still to be done. ACOE understands the District is working to update its Fiscal Vitality Plan and this is scheduled to be both reviewed and approved by the board in February 2021. In ACOE’s latest review of FCMAT’s Indicators of Risk or Potential Insolvency, OUSD continues to show evidence of many indicators. We urge the District to continue its focus on fiscal operations improvements even in the midst of the significant additional strains caused by the COVID-19 pandemic.

Blueprint for Quality Schools Progress

During the 2018-19 and 2019-20 fiscal years, OUSD made progress towards achieving a more sustainable number of schools in order to improve the District's fiscal health and school quality. Based on the District's May 27, 2020 Board presentation, this work has helped OUSD realize \$3 million in cost savings. However, the same presentation also projects that reducing the number of "unsustainably-sized schools" could save the District \$15 million annually, a cost that will only increase every year that the District does not act due to increasing employee and operational costs.

We recognize that this is a difficult process yet a necessary one as the district continues to decline in enrollment. As districts across the state deal with fiscal uncertainty, it is imperative that OUSD continue facility discussions with urgency and implement action plans that support fiscal sustainability and improved school quality in the 2020-21 fiscal year.

Debt Issuance

We would like to remind the District of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications in the current or prior year. According to EC Section 42133(a), *"a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district ...unless the county superintendent of schools determines ...that the district's repayment of that indebtedness is probable."*

Please ensure that any debt instruments that do not require the approval of the voters of the District are submitted to our office at least 30 days prior to the District's Board action in accordance with Education Code Section 17150.1 and Assembly Bill 2197.

Collective Bargaining

We would like to remind the District of the requirements of Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) on the public disclosure of collective bargaining agreements. As a qualified District, OUSD is required to provide ACOE with an analysis of the cost of any settlement and its impact on the operating budget at least 10 working days prior to the date the District Governing Board will take action on the proposed agreement.

Cash Flow Concerns

ACOE would like to acknowledge the OUSD Board and District staff's progress in maintaining a balanced budget, as well as designating reserves above the minimum. These efforts have ensured OUSD is in a healthy cash position as we approach the onset of the State's apportionment deferrals, which are anticipated for the current and subsequent fiscal year. Due to the State's reliance on these deferrals, we encourage the District to closely monitor its cash flow and continue to retain reserves above the minimum. Furthermore, we encourage OUSD's participation in the State's TRAN pool, if

needed. As expressed by many across the state, these deferrals, coupled with the removal of hold-harmless ADA provisions in 2022-23, will continue to pose cash concerns for LEAs in the foreseeable future. We especially encourage the Board to thoughtfully identify and implement budget adjustments throughout the course of operation, as well as vigorously monitor the District's cash position.

Conclusion

We look forward to my team and OUSD working collaboratively as the District develops its Second Interim Budget report, as well as a list of Board-approved expenditure reductions and/or budget-balancing solutions. Regardless of the Governor's state budget proposal, OUSD needs to be prepared to take necessary actions should the proposal not materialize. Therefore, ACOE expects to receive OUSD's Second Interim Report and a list of Board-approved and identified budget-balancing solutions on or before March 16, 2021.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. If you have any questions or concerns regarding our review process, please feel free to call me at (510) 670-4140.

Sincerely,



Laura Karen (LK) Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Kyla Johnson-Trammell, Superintendent, Oakland USD
Lisa Grant-Dawson, Chief Business Official, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Chris Learned, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Interim Chief of District Business & Advisory Services, ACOE



Alameda County Office of Education

L. K. Monroe Superintendent of Schools

April 16, 2021

Shanthi Gonzales, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2020-21 Second Interim Budget Report

Dear President Gonzales,

The Oakland Unified School District (OUSD) filed a QUALIFIED certification of the District's 2020-21 Second Interim Budget Report with the Alameda County Office of Education (ACOE). In accordance with Education Code (EC) Section 42131, ACOE reviewed the Second Interim Budget Report, based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127.

Based on ACOE's review and analysis, the Second Interim Budget Report approved by OUSD's Governing Board (Board) on March 10, 2021, accurately reflects the financial status of the district. ACOE, therefore, concurs with the District's QUALIFIED certification with our comments outlined below.

LCFF Revenue Projections & Average Daily Attendance (ADA)

In consultation with the CDE, ACOE has confirmed OUSD will be funded in 2020-21 based on its corrected 2019-20 P-2 ADA report, plus additional Charter ADA for those charters that ceased operation during or after the 2019-20 school year. OUSD was not required to apply for this funding with the Growth Funding application and has received a total of 212.21 P-2 ADA from closed Charters both within and outside Alameda County. ACOE has shared this information with the District's fiscal staff and is pleased that ACOE's former LCFF ADA concerns have been resolved.

As expressed in ACOE's First Interim correspondence, OUSD projects continued declining enrollment throughout its Multiyear Budget Projection (MYP). While current "hold-harmless" legislation mitigates these declines through 2021-22, this legislation is set to expire in 2022-23. The COVID-19 pandemic has created even more uncertainty around enrollment; therefore, we believe that a conservative approach is important for LEAs. ACOE advises the District to create plans for additional budget-balancing solutions in case enrollment projections fail to materialize.

Multivear Budget Projection (MYP) – District’s Required Cuts

OUSD’s 2020-21 Second Interim Multiyear Budget Projection (MYP) includes unidentified ongoing expenditure reductions that have increased since its First Interim Budget Report, showing limited progress to identify or incorporate budget-balancing solutions into the budget. For example, the District’s First Interim Budget Report included \$52 million in combined unidentified reductions from 2021-22 through 2022-23. These unidentified reductions have increased to \$61.8 million within the District’s Second Interim MYP. The District’s Second Interim MYP includes \$5.7 million in combined salary reductions to 2021-22, as well as \$3.2 million in unidentified reductions, “Other Adjustments”. Further, the District includes \$58.6 million in unidentified combined reductions to 2022-23. While the District’s submitted MYP demonstrates the ability to meet its minimum Reserve for Economic Uncertainties for the current and subsequent fiscal years, once the unidentified reductions are removed, the District has a **negative** 1.56% Reserve for Economic Uncertainty (REU) in 2022-23.

As expressed during the public disclosure communication, in the Second Interim packet and Public Disclosure documents, ongoing expenditures are balanced on one-time revenue but are carried forward throughout OUSD’s Multiyear Budget Projections. For example:

- Salaries and Benefits, in total at Adopted Budget, were projected at \$464 million; as of the Second Interim, before accounting for the effects of this most recent Tentative Agreement, Salaries and Benefits in total are budgeted at \$509 million and increase annually within the MYP.
- The District’s financial analysis projects the District is required to implement **\$3.2 million** in budget-balancing solutions in 2021-22 and **\$58.6 million in 2022-23**.
- ACOE is still awaiting a detailed plan for how OUSD will address these ongoing budgetary shortfalls.

ACOE has not received OUSD’s board-approved budget-balancing solutions or a timeline of its implementation aside from OUSD’s short-term stabilization “Bridge Plan”. The District must address the structural deficit including a detailed plan of action and status updates to the County Trustee and ACOE. ACOE’s First Interim letter clearly expressed ACOE’s expectation to receive with OUSD’s Second Interim Report a list of Board-approved and identified budget-balancing solutions on or before March 16, 2021. ACOE received OUSD’s resolution to approve its Second Interim Budget Report, which includes an executive summary of short-term solutions and the use of one-time funds as a “Bridge Plan” to aid the District with its budget prioritization. Most notable is the District plans to use \$5 million of its tentative 2021-22 AB 1840 grant funds as a one-time solution to defer implementing budgetary solutions. As a reminder, AB1840 funds are contingent on OUSD right-sizing its budget, addressing its structural deficit, while creating stability for the students most at risk. ACOE understands the “Bridget Plan” resolution (File ID: 21-0497) was read to the Board in February, but will be formally presented to the Board at the end of April 2021 for action. While we recognize the District’s efforts to meet ACOE’s request amid many dueling priorities, it is important to note that the district's process has yet to meet the

true intention for the District to be clear to its stakeholders regarding the structural deficit and needed budget-balancing solutions.

Health Benefits and Governing Board (HBGB)

As mentioned at Second Interim and within ACOE's Corrective Action Audit review process, ACOE understands there is an unrecognized HBGB liability for the District, and it is recommended the District work toward designating a portion of its fund balance to address this potential obligation. While the District works to confirm the amount with its stakeholders, the next reporting period (Third Interim) must include a tentative designation in the District's fund balance and throughout its MYP to address this obligation.

Blueprint for Quality Schools Progress

As mentioned at First Interim, ACOE recognizes moving forward with OUSD's Blueprint for Quality Schools taskforce is a necessary process as the district continues to decline in enrollment. It is imperative that OUSD continue facility discussions and implement action plans that support fiscal sustainability and improved school quality in the 2020-21 fiscal year and beyond.

Debt Issuance

We would like to remind the District of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications in the current or prior year. According to EC Section 42133(a), *"a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district ...unless the county superintendent of schools determines...that the district's repayment of that indebtedness is probable."*

Please ensure that any debt instruments that do not require the approval of the voters of the District are submitted to our office at least 30 days prior to the District's Board action in accordance with Education Code Section 17150.1 and Assembly Bill 2197.

Collective Bargaining

We would like to remind the District of the requirements of Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) on the public disclosure of collective bargaining agreements. As a qualified District, OUSD is required to provide ACOE with an analysis of the cost of any settlement and its impact on the operating budget at least 10 working days prior to the date the District Governing Board will take action on the proposed agreement.

Cash Flow Concerns

Due to the State's reliance on apportionment deferrals, we encourage all LEAs to closely monitor their cash flow throughout the course of operation. For LEAs throughout the state, the need to retain reserves above the minimum is a necessity. As of April 2021, OUSD utilized a temporary \$7 million loan to the General Fund. OUSD is also expected to participate in a Tax Revenue Anticipation Note (TRAN) of \$30 million to mitigate the impact of the deferrals. This is expected to be repaid in full by December 2021 from OUSD's State Apportionments. As a reminder, the effects of these deferrals, coupled with the removal of hold-harmless ADA provisions in 2022-23, will pose cash concerns for LEAs in the foreseeable future. We encourage governing boards to thoughtfully identify and implement budget adjustments throughout the course of operation, as well as vigorously monitor the LEA's cash position.

Conclusion

While the one-time revenues from state and federal resources have helped navigate the COVID-19 pandemic, when they expire in 2022-23, many LEAs will be faced with the same financial pressures that lead to structural deficits prior to the pandemic. As a result, ACOE cautions the District to remain vigilant about its budget and fiscal practices.

The District is required to continue to update ACOE bi-weekly on its progress in identifying the \$61.8 million in reductions and/or revenue enhancements. It is important to note that during this time, OUSD must remain resolute in its commitment to the District's fiscal solvency.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. If you have any questions or concerns regarding our review process, please feel free to call me at (510) 670-4140.

Sincerely,



L.K. Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Dr. Kyla Johnson-Trammell, Superintendent, Oakland USD
Lisa Grant-Dawson, Chief Business Official, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Chris Learned, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Interim Chief of District Business & Advisory Services, ACOE



Alameda County Office of Education

L. K. Monroe Superintendent of Schools

September 15, 2021

Shanthi Gonzales, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: Annual Report Regarding Fiscal Solvency of Oakland Unified School District Pursuant to Education Code Section 1240(e)

Dear President Gonzales:

Pursuant to the provisions of Education Code (EC) 1240(e) under Assembly Bill (AB) 139, the Alameda County Superintendent of Schools is required to present an annual report to the school district's governing board and the Superintendent of Public Instruction regarding the fiscal solvency of any school district with a disapproved budget, a qualified or negative interim certification, or that has been determined at any time during the year to be in a position of fiscal uncertainty as identified in EC 42127.6.

Oakland Unified School District's (OUSD) 2020-21 Adopted Budget was conditionally approved by the Alameda County Office of Education (ACOE). OUSD's First and Second Interim Financial Reports were submitted with a qualified certification, to which the Alameda County Office of Education concurred. In addition to our reports throughout the year, the following annual report on the fiscal solvency of OUSD for 2020-21 has been prepared to further meet the requirements of EC 1240(e).

2019-20 Fiscal Solvency Review

A summary of the budget reports submitted by OUSD over the course of 2020-21 is listed in the table below.

General Fund Fiscal Summary				
Description	Adopted Budget	First Interim	Second Interim	Third Interim
Total Revenues and Other Sources	\$ 568,067,174	\$ 655,523,658	\$ 674,596,111	\$ 722,180,733
Total Expenditures, Other Uses & Transfers	\$ 570,527,228	\$ 668,929,815	\$ 669,803,206	\$ 660,279,817
Surplus/(Deficit)	\$ (2,460,054)	\$ (13,406,157)	\$ 4,792,905	\$ 61,947,848
Total Ending Fund Balance	\$ 63,771,869	\$ 54,171,441	\$ 71,238,657	\$ 69,288,334

Unrestricted Reserve (Object Codes 9789 & 9790)	\$ 11,581,735	\$ 24,489,214	\$ 23,016,492	\$ 27,958,600
Other Assignments	\$ 12,746,376	\$ 7,530,324	\$ 28,719,686	\$ 41,179,711
Total Reserve	\$ 11,581,735	\$ 24,489,214	\$ 23,016,492	\$ 27,958,600
Unrestricted Reserve %	2.03%	3.66%	3.44%	4.23%
Average Daily Attendance (ADA) P-2 Projections	33,716.58	33,897.23	33,911.00	33,911.00
Funded 2020-21 P-2 ADA	33,911.00			

Adopted Budget Report

On June 29, 2020, the District submitted its 2020-21 Adopted Budget Report, which included a Multi-year Budget Projection (MYP). While the MYP projected the District would be able to maintain a minimum reserve requirement of 2% in 2020-21 through 2022-23, as well as an additional assignment addressing the Board’s local 1% mandated reserve, the District incorporated a placeholder of \$16.5 million in ongoing reductions in 2020-21, an additional \$43 million in 2021-22, and an additional \$12.5 million in 2022-23.

Subsequently, OUSD submitted a 45-day budget revision, which incorporated additional unrestricted LCFF revenues, resulting from the Governor’s State-enacted budget where the 10% reduction in LCFF proposed during the May budget revision shifted to a 0% reduction along with a hold-harmless provision on Average Daily Attendance (ADA). The inclusion of these additional unrestricted LCFF revenues in the General Fund resulted in a reversal of the \$16.5 million in ongoing reductions that were incorporated in the District’s Adopted Budget. Additionally, the District recorded the Federal COVID dollars to the restricted budget and the corresponding expenditures. OUSD disclosed that its unrestricted revenue increased from \$361 million in the Original Adopted Budget to \$390.1 million at the 45-day budget revision. Correspondingly, the Unrestricted Expenditures increased from \$288 million to \$306 million. As a result, the District’s overall fiscal position shifted in 2020-21 with a net improvement to the unrestricted budget of approximately \$12.8 million from its original Board-approved Adopted Budget. OUSD’s ability to implement the required reductions to the out years remained a concern. This uncertainty is due to the restoration of the \$16.5 million in ongoing expenditures, projected unidentified reductions prior to the COVID-19 pandemic, loss of ADA, as well as with the collective bargaining agreements settlements (United Administrators of Oakland Schools (UAOS), the American Federation of State, County, and Municipal Employees Local 257 (AFSCME)) and Unrepresented Employees per Resolution No. 1920-0264 which occurred subsequent to the budget adoption.

As a result, ACOE conditionally approved OUSD’s 2020-21 Adopted Budget, pending receipt and analysis of the following documents on or before October 8th as required by the California Education Code Section 42127 (d)(3):

- 2019-20 Unaudited Actuals report by the required deadline of September 15th with an ending fund balance at or near the projection included in the Estimated Actuals.
- A revised MYP that includes the fiscal impact of all collective bargaining agreements approved by the Board. OUSD's Unaudited Actuals Report was received by ACOE by the statutory deadline of September 14, 2020.

Consequently, OUSD's Unaudited Actuals Report was received by ACOE by the statutory deadline of September 14, 2020. On October 14, 2020, the District's response to the conditional approval was approved by the Board, and the revised 2020-21 MYP was disclosed. The revised MYP included recent amendments, a budget tightening to both the Unrestricted and Restricted programs, as well as the fiscal impact of the recent settlements with UAOS, AFSCME, and the Unrepresented as of June 2020. The District stated at the time that the financial impact of these agreements will be addressed with the one-time CARES Funding that has been provided to help support LEAs with direct COVID related expenses and to mitigate learning loss. Based on ACOE's review of OUSD's Conditional Approval response, it was determined that OUSD has met all the conditions for approval and ACOE approved OUSD's 2020-21 Adopted Budget on November 6, 2020.

First Interim Budget Report

ACOE reviewed OUSD's 2020-21 First Interim Budget Report that was approved by OUSD's Governing Board on December 9, 2020. The OUSD Board certified the report as "qualified", to which ACOE concurred. While the MYP demonstrated the ability to meet its minimum Reserve for Economic Uncertainties (REU) for the current and subsequent fiscal years, this could only be achieved with the following reductions:

- Unidentified ongoing expenditure reductions of \$16 million in 2021-22, with an additional \$20 million in 2022-23
- Salary adjustments resulted in a combined ongoing salary reduction of \$14.8 million in fiscal year 2021-22 and an additional \$1.1 million in ongoing certificated salary reductions to 2022-23.

In addition, the District's LCFF Revenue Sources were found to be inaccurately stated on the MYP due to the District not using the most current assumptions of ADA, Unduplicated Pupil Percentage (UPP), and COLA in the calculation. ACOE recalculated OUSD's LCFF Revenues to be overstated by approximately \$4.4 million in 2020-21, \$9.2 million in 2021-22, and \$18.8 million in 2022-23.

Second Interim Budget Report

On March 16, 2020, OUSD filed a “qualified” certification of the District’s 2020-21 Second Interim Budget Report with ACOE. Based on review and analysis of this report, ACOE concurred with the District’s certification approved by OUSD’s Board on March 10, 2021.

In consultation with the CDE, ACOE confirmed OUSD’s funding in 2020-21 is based on the corrected 2019-20 P-2 ADA report, plus additional Charter ADA for those charters that ceased operation during or after the 2019-20 school year. OUSD was not required to apply for this funding with the Growth Funding application and had received a total of 212.21 P-2 ADA from closed Charters both within and outside Alameda County. OUSD projections included declining enrollment throughout its MYP at Second Interim. While current “hold-harmless” legislation mitigated these declines through 2021-22, it is set to expire in 2022-23. ACOE advised the District to create plans for additional budget-balancing solutions in case enrollment projections fail to materialize.

OUSD’s MYP at Second Interim included unidentified ongoing expenditure reductions that had increased since its First Interim Budget Report, showing limited progress to identify or incorporate budget-balancing solutions into the budget. While the District’s First Interim Budget Report included \$52 million in combined unidentified reductions from 2021-22 through 2022-23, these unidentified reductions increased to a combined \$61.8 million within the District’s Second Interim MYP, broken down as follows:

- Salary reductions of \$5.7 million in 2021-22
- Unidentified reductions of \$3.2 million in 2021-22 and \$58.6 million in 2022-23.

While the MYP projected to meet its minimum REU for the current and subsequent fiscal years, the District was projected to have a negative 1.56% REU in 2022-23 if the above reductions were not implemented. In addition, ACOE expressed concerns related to ongoing expenditures being balanced by one-time revenues and the District must have a plan on how these expenditures would be funded once the one-time funding was depleted. ACOE’s First Interim letter expressed ACOE’s requirement to receive with OUSD’s Second Interim Budget Report a list of Board-approved and identified budget-balancing solutions on or before March 16, 2021. At Second Interim, ACOE received OUSD’s resolution to approve its Second Interim Budget Report, which included an executive summary of short-term solutions and the use of one-time funds as a “Bridge Plan” to aid the District with its budget prioritization. While the District’s efforts to meet ACOE’s request were recognized, the District’s process had yet to meet the intention for the District to be clear regarding the structural deficit and needed budget-balancing solutions. The District was required to continue to update ACOE on a bi-weekly basis on its progress in identifying the \$61.8 million in reductions that were needed to remain fiscally solvent.

The Bridge Plan

On April 28, 2021, The District's Board Approved Resolution No. 2021-0254, approved the District's revised 2021-22 Budget reduction options and Bridge Plan for the Fiscal Year 2021-22 Budget. This Plan was initially presented to the Board on February 24, 2021. The District's staff projected the need to reduce \$16 million in expenditures for 2021-22. The Revised Plan outlines a total of \$20.8 million in reductions, comprised of the following:

- \$4.7 million in savings from ongoing reductions
- The use of \$11 million from Elementary and Secondary Emergency Relief (ESSER) II
- The use of \$5 million from the District's 2021 allocation under Assembly Bill No. 1840.

Furthermore, the Resolution stated the Board's recognition that the Revised Plan primarily included the use of one-time money to address the District's 2021-22 deficit, that such solutions do not address and could delay the long-term fiscal sustainability of the District, and the Board's commitment to adopting additional budget solutions for the subsequent two fiscal years to ensure the long-term fiscal solvency of the District in the MYP at Third Interim and at the 2021-22 budget adoption.

Cash Flow

To mitigate the impact of the State's Principal Apportionment deferrals affecting the months of February through June 2021, OUSD utilized a temporary \$7 million loan to the General Fund, along with a Tax Revenue Anticipation Note (TRAN) of \$30 million as of April 2021. This is expected to be repaid in full by December 2021 from OUSD's State Apportionments.

Collective Bargaining

On June 16, 2021, OUSD presented to the Board Resolution No. 2021-0221, which granted confidential employees actively employed by the District effective July 1, 2021, with additional compensation in alignment with the collectively bargained agreements to provide one-time compensation to all unions representing District employees: AFSCME, BCTC, CSEA, OEA, SEIU (OSEA & OCDPA), Teamsters and UAOS for the Reopening Schools to In Person Services and Instruction 2020-21 School Year during the COVID-19 Pandemic. All confidential employees were provided a one-time payment equal to 3.5% of the employees' base salary earned between January 1, 2021, and June 30, 2021. In addition, all confidential employees who were active as of March 20, 2021, and who supported in-person and hybrid reopening effective March 30, 2021, through May 28, 2021, were provided a \$2,000 one-time stipend to be paid out by July 30, 2021. The District projected the fiscal impact of this one-time payout to be a total of \$520,144 that would be funded using ESSER II and In-Person Instruction (IPI) one-time COVID relief funding.

Third Interim Budget Report

On May 28, 2021, ACOE received OUSD's Third Interim Budget Report. No certification is required for this report. The District showed an increase of approximately \$48 million in Restricted General Fund revenues in 2020-21 from the Second Interim Budget Report. As the District explained in the Executive Summary included in the Third Interim Financial Report presented to the Board on May 26, 2021, this increase was driven primarily from recognizing revenues from Assembly Bill (AB) 86 Funding of \$39.5 million and new restricted grant allocations.

The Executive Summary stated that the MYP at Third Interim incorporated the proposed budget options in the Bridge Plan (mentioned above). While the Executive Summary stated that the MYP reflected the reduction needed in 2022-23 of \$55.6 million as of Second Interim, this amount was not consistent with the unidentified reductions noted at Second Interim of \$58.6 million (mentioned above), as well as the District reflected significant amendments to its Third Interim projections. The District's deficit appeared to have been stabilized by the inclusion of one-time ESSER II funding of \$57 million, as well as with the increased revenue of AB 86 of \$39.5 million. The District complied with ACOE's request and provided an MYP scenario without one-time funding in the Third Interim Report. While the District projected to meet the 2% required REU with the one-time funding for the current and subsequent two fiscal years, this was not the case in the out years in the scenario without the one-time funding. Per review of the District's Third Interim Report, ACOE continued to emphasize the concern with the District's use of one-time funding for ongoing expenditures. While the addition of the one-time funds helped to remove the deficit in the short term, ACOE communicated throughout its engagements with the District that this was not a sustainable long-term solution. ACOE encouraged the District to continue to address its structural deficit with long-term solutions to ensure the future fiscal solvency of the District.

ACOE and OUSD continue in partnership to ensure the fiscal health and success of Oakland Unified and its students. We appreciate the continued efforts from the District and Board as they move to a future with financial stability. If you have any questions, please feel free to call me at (510) 670-4140.

Sincerely,



L. K. Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Kyla Johnson-Trammell, Superintendent, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Elizabeth Dearstyne, Director, School Fiscal Services Division, CA Dept. of Education

Lisa Grant-Dawson, Chief Business Official, Oakland USD
Luz Cázares, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District Business and Advisory Services, ACOE
Natalie Cardaniuc, Director II, District Advisory Services, ACOE

Indicators of Risk or Potential Insolvency

FOR CALIFORNIA COMMUNITY COLLEGES

The Fiscal Crisis and Management Assistance Team (FCMAT) has compiled the list of indicators of risk or potential insolvency for California community colleges based on more than 25 years of experience with local educational agencies (LEAs). Although some indicators have been on the list since it was first published, others were removed or added as changes occurred, such as the evolution of funding models and changes in finance and education policy. These indicators will continue to be updated over time to ensure they remain relevant and helpful.

Each item listed indicates a lack of function, commitment, or attention to one or more critical elements of an organization's operations, which may eventually contribute to an LEA's insolvency. The existence of any one of the indicators increases risk of potential insolvency and the need for assistance from outside agencies. Lack of attention to these indicators will eventually lead to financial insolvency and loss of local control.

Identifying issues early is the key to maintaining fiscal health. Diligent multiyear planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider discussing the indicators regularly and complete a Fiscal Health Risk Analysis (FHRA) annually to assess its own fiscal health risk and progress over time. The FHRA for community colleges can be found at: <http://fcmat.org/community-colleges/>.

1. Unreliable Budget Development

- Unreasonable and/or unclear budget assumptions
- Student Centered Funding Formula (SCFF) revenue not calculated correctly
- Reliance on prior-year rollover budget method
- Position control data not used
- Reliance on carryover funds to balance the budget
- One-time sources utilized for ongoing expenditures
- Input not received during the budget development process in accordance with the documented planning model
- Enrollment management and budget development systems are not integrated

2. Insufficient Budget Monitoring or Updates

- Failure to regularly update budget assumptions
- Actual revenue and expenditures inconsistent with the most current budget
- Budget revisions not posted in the financial system or communicated to the board regularly
- Lack of control or monitoring of total compensation as a percentage of total expenses
- Noncompliance with the fifty percent law
- Failure to meet the full-time faculty obligation number (FON)
- Balance sheet accounts in the general ledger not regularly reconciled
- Requisitions or purchase orders processed when the budget is insufficient

3. Inadequate Cash Management

- Failure to reconcile cash accounts monthly
- 18-month cash flow not forecast
- Lack of short-term plan to address cash flow needs
- Failure to set aside repayment funds when external borrowing occurs
- Lack of communication to the board about the district's cash position (with a clear distinction that cash and fund balance are not the same thing)

The logo for FCMAT (Fiscal Crisis & Management Assistance Team) features the acronym "FCMAT" in a large, bold, blue serif font. Below the text is a horizontal bar with a blue-to-teal gradient.

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

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4. Mismanaged Collective Bargaining Agreements

- Failure to consider long-term impact of collective bargaining agreements
- Lack of bargaining agreements with all units for several years with no resources identified to cover potential settlements
- Presettlement analysis not conducted thoroughly or timely
- Settlements above the funded cost-of-living adjustment (COLA)

5. Increasing and/or Unplanned Transfers, Intra- and Interfund

- Insufficient control and monitoring of intrafund and interfund transfers
- Lack of a board-approved plan to eliminate, reduce, or control intra- and interfund transfers
- Transfers from the unrestricted general fund not made when needed to cover projected negative fund balances in other funds
- Transfers to restricted programs and/or other funds not budgeted

6. Continuing Deficit Spending

- Deficit spending in the current or two subsequent fiscal years
- Not having or implementing a board-approved plan to reduce and/or eliminate deficit spending
- Not decreasing deficit spending over the past two fiscal years

7. Mismanaged Employee Benefits

- Actuarial valuation not completed in accordance with Governmental Accounting Standards Board (GASB) requirements to determine the unfunded liability for other post-employment benefits (OPEB)
- Lack of a board-adopted plan to fund retiree health and welfare benefit liabilities
- Nonexistence or noncompliance of a policy or collectively bargained agreement to limit faculty banked hours and other vacation balances
- No verification and determination of eligibility for benefits for all active and retired employees and dependents in the last three years
- Compensated leave balances not tracked, reconciled and reported on the balance sheet

8. Inattention to Enrollment and Attendance Reporting

- Enrollment decreasing and/or unstable
- Enrollment, weekly student contact hours (WSCH) and full-time equivalent students (FTES) data not monitored and analyzed at least monthly through P2
- Enrollment projections and assumptions not based on historical data, demographic trend analysis, high school enrollments, community participation rates and other industry-standard methods
- Disagreement between institutional research and business/fiscal staffs on enrollment and FTES projections
- College enrollment plans not addressing the funding elements of the SCFF
- Data not reviewed and verified by applicable sites and departments and corrected as needed before the report submission deadlines to the state
- Board policy on enrollment is nonexistent, or policy is not followed

9. Decreasing Fund Balance and Reserve for Economic Uncertainty

- Failure to accurately estimate the ending fund balance
- Failure to maintain the 5% minimum reserve for economic uncertainty in the current or two subsequent years
- If unable to maintain the minimum reserve for economic uncertainty, a board-approved plan to restore the minimum reserve for economic uncertainty does not exist
- Projected unrestricted fund balance not stable or not increasing
- Unrestricted fund balance does not include assigned or committed reserves above the 5% reserve level when unfunded or contingent liabilities, or one-time costs, exist

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10. Ineffective Internal Controls and Fraud Prevention

- Lack of controls that limit access to the financial system
- Access and authorization controls to the financial system not reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually
- Lack of segregation and/or supervision or monitoring of duties in accounts payable, accounts receivable, purchasing, contracts, payroll, human resources, associated student body, and warehouse/receiving
- Beginning balances for the new fiscal year not posted and reconciled with the ending balances from the prior fiscal year
- Prior year accruals not reviewed and cleared by October 31
- Suspense accounts not reconciled regularly
- General ledger not reconciled or closed timely
- Inadequate processes and procedures in place to discourage and detect fraud

11. Breakdown in Leadership and Communication

- Uninformed decisions made because the system(s) cannot provide key financial and personnel data needed
- Frequent turnover in the chief business official or chancellor/chief executive officer positions (the incumbents have been with the district less than two years)
- Lack of regular communication between the chancellor/chief executive officer and all members of the administrative cabinet
- District, college and department administrators who are responsible for budget management and decision-making do not receive timely training on financial management, budget and governance.
- Board policies and administrative regulations routinely ignored, not adopted, updated, implemented or communicated to staff
- Micromanagement by board members
- Systems fully or partially controlled by highly influential special interest groups

12. Lack of Multiyear Planning

- Unreasonable and/or unclear multiyear projections that are not aligned with industry standards
- Failure to explain trend analysis
- SCFF calculation not prepared with multiyear considerations
- Financial decisions made without most current multiyear projection in mind

13. Inattention to Non-Voter-Approved Debt and Risk Management

- Sources of non-voter-approved debt repayment unstable, unpredictable and from the unrestricted general fund
- Downgrade of credit rating
- Out-of-date actuarial study (more than two years old) without a plan to pay for any unfunded liabilities when self-insured
- High levels of non-voter-approved debt with total annual debt service payments greater than 2% of the district's unrestricted general fund revenue

14. Lack of Position Control

- Financial and human resources systems not integrated
- Accounting for positions and costs is incomplete
- Staffing not analyzed or adjusted based on enrollment
- Budget, payroll and position control not reconciled regularly
- Budget source not identified for each new position before the position is authorized by the governing board
- New positions and extra assignments posted before governing board approval
- Lack of regular meetings between human resources, payroll and budget to discuss issues and improve processes

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15. Related Issues of Concern

- Failure to produce timely and accurate financial information
- Annual independent audit report contains material apportionment or internal control findings
- Out-of-date long-range facilities master plan
- Poor data quality
- Failure to file annual audit, financial or enrollment reports accurately and on time