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Board Cover Memorandum

To Board of Education

From Sam Davis, Board Vice President
Mike Hutchinson, Board Member

Meeting Date June 23, 2021

Subject Resolution No. 2021-0163 - Preparing Plan to Fully Repay State Loans

Ask of the Board Approval by the Board of Education of Resolution No. 2021-0163 - Preparing Plan to Fully Repay State Loans

Background In 2003, the State took over the District after the latter was not able to meet its financial obligations. As part of that takeover, the State authorized a \$100 million loan for the District and the Superintendent of Public Instruction (“SPI”) assumed all of the Board of Education’s rights, duties, and powers and appointed an administrator to run the District.

The administrator then borrowed all \$100 million from the State. A portion of the loan was subsequently refinanced by the sale of California Infrastructure Economic Development Bank bonds (“I-Bank loan”) that reduced, but did not eliminate, the State General Fund loan, leading to two loans. The last payment on the I-Bank loan is scheduled for January 2023 and the last payment on the State General Fund loan is scheduled for June 2026.

On June 28, 2009, the Board’s full rights, duties and powers were reinstated, with the exception that a trustee was appointed with the ability to stay and rescind any action of the Board that, in the judgment of the trustee, may affect the financial condition of the District.

The current trustee, Christopher Learned, will be leaving his position as of June 30, 2021. The Alameda County Superintendent of Schools, the SPI, and the President of the State Board or his or her designee appoint, by majority vote, the next trustee from a pool of candidates identified and vetted by the Fiscal Crisis and Management Assistance Team (“FCMAT”).

There are certain steps that must be met before the District can fully repay the loans and, even then, the stay/rescind authority is not necessarily automatically removed. Under State law, the District needs to hire an auditor to conduct an audit of its fiscal systems before OUSD may fully repay its loans. Additionally, the trustee

(whoever it is) serves until, among other things, OUSD has adequate fiscal systems and controls in place; and even after there is no more trustee, Superintendent Monroe retains the ability to stay and rescind any action of the Board until the District's loans are repaid.

Discussion

The District has significantly improved its financial standing and systems and has consistently set aside an additional 1% in reserve (beyond the state required reserve). While the District's budget remains "Qualified" and there are still long-term structural financial challenges, the Board has adopted the 2021-2023 Fiscal Sustainability Plan to address these long-term structural financial challenges. Paying off the loan debt at the earliest opportunity would help address these long-term structural financial challenges and, more generally, would be an example of sound fiscal management and governance.

This Resolution expresses the Board's intent to fully repay the I-Bank and the State General Fund loans by no later than January 2023 and directs the Superintendent or designee to prepare and present to the Board a plan ("Repayment Plan") for consideration by the Board no later than December 2021 that would allow the District to pass a fiscal systems audit and fully repay the I-Bank and the State General Fund loans by no later than January 2023. The Repayment Plan would need to include, at a minimum, (i) information regarding the current repayment schedules and any impacts of repaying the two loans early, (ii) an option to set aside the necessary funds by June 2022 (in order to realize the ongoing savings in the 2022-23 budget), and (iii) a timeline for selecting and hiring the auditor and performing the fiscal systems audit.

Additionally, the Resolution requests that the Alameda County Superintendent of Schools select a new trustee who is able and willing to support the District passing the fiscal systems audit and fully repaying the I-Bank and the State General Fund loans by no later than January 2023 and, thus, whose term would not exceed January 2023.

This item was introduced as a new legislative matter on June 9, 2021 and now comes to the Board for action.

Fiscal Impact

None. There is likely to be a financial impact if the Board subsequently votes to implement the Repayment Plan.

Attachment(s)

- Resolution No. 2021-0163 - Preparing Plan to Fully Repay State Loans

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

Resolution No. 2021-0163

Preparing Plan to Fully Repay State Loans

WHEREAS, as a result of the District not being able to meet its financial obligations, the State authorized a \$100 million loan for the District and, consistent with state law at the time, the Superintendent of Public Instruction (“SPI”) assumed all of the Board of Education’s rights, duties, and powers and appointed an administrator to run the District;

WHEREAS, the State-appointed administrator borrowed all \$100 million from the State and a portion of the loan was subsequently refinanced by the sale of California Infrastructure Economic Development Bank bonds (“I-Bank loan”), leading to two outstanding loans for the District;

WHEREAS, the last payment on the I-Bank loan is scheduled for January 2023 and the last payment on the State General Fund loan is scheduled for June 2026;

WHEREAS, the Board’s full rights, duties, and powers were reinstated on June 28, 2009, with the exception that a trustee was appointed with the ability to stay and rescind any action of the Board that, in the judgment of the trustee, may affect the financial condition of District;

WHEREAS, Christopher Learned, the current trustee (who now reports to Alameda County Superintendent of Schools L.K. Monroe as opposed to the SPI due to changes in law under Assembly Bill No. 1840), will be leaving his position as of June 30, 2021;

WHEREAS, pursuant to Education Code section 41320.1, Superintendent Monroe, the SPI, and the President of the State Board or his or her designee shall, by majority vote, appoint the next trustee from a pool of candidates identified and vetted by the Fiscal Crisis and Management Assistance Team;

WHEREAS, Education Code section 41320.1 also states, in relevant part, that there needs to be “an audit of its fiscal systems” before OUSD may fully repay its loans;

WHEREAS, Education Code section 41320.1 further states that the trustee shall serve until, among other things, OUSD “has adequate fiscal systems and controls in place” and that even “[a]fter the trustee’s period of service” Superintendent Monroe retains the ability to stay and rescind any action of the Board until the District’s loans are repaid;

WHEREAS, the District has significantly improved its financial standing and systems and has consistently set aside an additional 1% in reserve (beyond the state required reserve);

WHEREAS, the District’s budget remains “Qualified” and the District still has long-term structural financial challenges;

WHEREAS, the Board has adopted the 2021-2023 Fiscal Sustainability Plan to address these long-term structural financial challenges;

WHEREAS, paying off the loan debt at the earliest opportunity would help address these long-term structural financial challenges and, more generally, would be an example of sound fiscal management and governance; and

WHEREAS, it is in the interest of the students and staff of OUSD as well as the taxpayers of Oakland for the Board to regain complete democratic control of the District.

NOW, THEREFORE, BE IT RESOLVED, the Board of Education expresses its intent to fully repay the I-Bank and the State General Fund loans by no later than January 2023;

BE IT FURTHER RESOLVED, the Board of Education hereby directs the Superintendent or designee to prepare and present a plan (“Repayment Plan”) for consideration by the Board no later than December 2021 that would allow the District to pass a fiscal systems audit and fully repay the I-Bank and the State General Fund loans by no later than January 2023;

BE IT FURTHER RESOLVED, the Repayment Plan shall include (i) information regarding the current repayment schedules and any impacts of repaying the two loans early, (ii) an option to set aside the necessary funds by June 2022 (in order to realize the ongoing savings in the 2022-23 budget), (iii) a timeline for selecting and hiring the auditor and performing the fiscal systems audit, and (iv) any other information the Superintendent or designee deems appropriate; and

BE IT FURTHER RESOLVED, the Board requests that Alameda County Superintendent of Schools L.K. Monroe, the SPI, and President of the State Board (or designee) select a new trustee who is able and willing to support the District passing the fiscal systems audit and fully repaying the I-Bank and the State General Fund loans by no later than January 2023 and, thus, whose term would not exceed January 2023.

PASSED AND ADOPTED on June 23, 2021, by the Governing Board of the Oakland Unified School District by the following vote:

PREFERENTIAL AYE: None

PREFERENTIAL NOE: None

PREFERENTIAL ABSTENTION: None

PREFERENTIAL RECUSE: None

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

NOES: None

ABSTAINED: None

RECUSED: None


ABSENT: Jessica Ramos (Student Director), Samantha Pal (Student Director)

CERTIFICATION


We hereby certify that the foregoing is a full, true and correct copy of a Resolution passed at a Regular Meeting of the Board of Education of the Oakland Unified School District held on June 23, 2021.

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OAKLAND UNIFIED SCHOOL DISTRICT



 Shanthi Gonzales
 President, Board of Education



 Kyla Johnston-Trammell
 Superintendent and Secretary, Board of Education