



March 31, 2022

Gary Yee, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2021-22 Second Interim Budget Report

Dear President Yee:

The work of achieving fiscal stability for Oakland Unified is critical to the District's ability to serve the students and families of Oakland. Students deserve every opportunity to thrive and succeed and that requires high-quality programs, facilities, technology and the ability to recruit and retain a diverse and qualified educator workforce. That is why the Alameda County Office of Education (ACOE) has been working so closely over the past several years with OUSD leadership and the Board to support the District's efforts to stabilize OUSD's long-term fiscal outlook. We have provided Intensive Support and Technical Assistance to OUSD as well as training and professional development of District staff in the areas of internal controls and budget development. And we strongly support the local decision-making of the Board and district leadership to reach our shared goals of not only financial prosperity for OUSD, but the ability to deliver an outstanding education to Oakland's children. The assessment of OUSD's fiscal condition is a mechanism that affords ACOE the opportunity to communicate responses to the District's fiscal condition and self-certification status.

Pursuant to Education Code (EC) Section 42131(a)(1), at each interim reporting period the governing board of a school district is required to certify whether the district is able to meet its financial obligations for the remainder of the fiscal year and the following two years based on the financial and budgetary reports required by EC Section 42130 and may also include additional financial information known to the Board.

The Oakland Unified School District (OUSD) filed a QUALIFIED certification of the District's 2021-22 Second Interim Budget Report based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127. This Qualified certification is assigned to any district that, based upon current projections, may not meet its



financial obligations for the current fiscal year or two subsequent fiscal years, including retaining reserves equal to the minimum required Reserve for Economic Uncertainties (REU). Based on the Alameda County Office of Education's (ACOE) required review and analysis, the Second Interim Budget Report, approved by OUSD's Board on March 9, 2022, accurately reflects the financial status of the District. ACOE, therefore, concurs with the District's QUALIFIED certification, with our comments outlined below.

OUSD's 2021-22 Financial Review To Date

- A. OUSD's 2021-22 Adopted Budget included a total of \$60.2 million in compounded budget stabilization arrangements. OUSD provided the following budgetary solutions within the Adopted Budget financials:
- In fiscal year 2021-22: A one-time amended Board-approved Bridge Plan (21-0949. File #21-0254) of \$19.4 million (i.e. The use of one-time funding sources in place of budgetary reductions or ongoing revenue.)
 - In fiscal year 2022-23: \$20.4 million in combined certificated and classified salary reductions per the District's Multi-Year Budget Projection (MYP)
 - In fiscal year 2023-24: \$20.4 million in combined certificated and classified salary reductions retained in the District's MYP (i.e. Reduction to base salaries in 2022-23 retained in 2023-24)

ACOE requested the District's Board-approved list and the timeline of implementation of the stabilization arrangements included in the District's 2021-22 Adopted Budget. The District requested in its November 2021 Board Resolution (Resolution No. # 2122-0020) an extension to January 2022 to provide both community engagement and Board approval for its budget-balancing solutions. ACOE granted this extension and declared OUSD a Lack of Going Concern, pending further information and financial review.

- B. OUSD's 2021-22 First Interim Budget included a total of \$83.6 million in compounded budget stabilization arrangements. OUSD provided the following budgetary solutions within their financials:
- In fiscal year 2021-22: A One-time amended Board-approved Bridge Plan (21-0949. File #21-0254) of \$19.4 million (i.e. The use of one-time funding sources in place of budgetary reductions or ongoing revenue.)
 - In fiscal year 2022-23: \$27.1 million in combined certificated and classified salary reductions per the District's MYP
 - In fiscal year 2023-24: \$37.1 million in combined certificated and classified salary reductions per the District's MYP (\$27.1 million are a reduction to base salaries in 2023-24 retained from 2022-23, \$10 million are additional salary reductions in 2023-24.)



- C. OUSD's 2021-22 Second Interim Budget Report and Multi-Year Budget Projections included a total of \$110 million in compounded budget stabilization arrangements for 2022-23 through 2023-24.

The report reflected the following:

- In fiscal year 2021-22: A one-time amended Board-approved Bridge Plan (21-0949, File #21-0254) of \$19.4 million (i.e. The use of one-time funding sources in place of budgetary reductions or ongoing revenue.)
- In fiscal year 2022-23: \$53.8 million in combined certificated and classified salary reductions per the District's MYP
- In fiscal year 2023-24: \$56.6 million in combined certificated and classified salary reductions per the District's MYP (\$53.8 million are a reduction to base salaries in 2023-24 retained from 2022-23, \$2.8 million are additional salary reductions in 2023-24.)
- Based on the District's proposed expenditure forecasts included in its MYP, as well as the implementation of \$56.6 million in *ongoing* reductions, the District is projected to meet its reserves for the current and subsequent two fiscal years.
- No deficit spending is projected in the Unrestricted General Fund for all three years; however, we understand the district has pending collective bargaining settlements that have not been designated in the District's fund balance or captured in the MYP, which would affect the District's financial position

Collective Bargaining

Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) requires school districts to publicly disclose their 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.

As required by code, the Superintendent and Chief Business Official must certify the costs incurred by the district under the agreements can be met by the district during the term of the agreement(s), and *the school district shall adopt all the budget revisions necessary to meet the costs*. ACOE has received the District's Certification of Affordability signed by Superintendent Johnson-Trammell and Chief Business Official Ms. Grant-Dawson for OUSD's recent tentative agreements. ACOE is in the process of conducting its review of these recent disclosures.

OUSD's Commitment to Fiscal Solvency

The Governing Board has the fiduciary responsibility to maintain fiscal solvency for the current and subsequent fiscal years. On April 28, 2021, the Governing Board of OUSD (Board) approved Resolution No. 2021-0254, which committed the Board "to reduce every position



funded by one-time funds” and to find and approve “additional budget-balancing solutions for the subsequent two fiscal years (2022-23 and 2023-24) to ensure the long-term fiscal solvency of the District.” The following resolutions were presented and approved by the OUSD Board:

- On January 12, 2022, the OUSD staff recommended budget reductions totaling \$49.3 million. On January 26, 2022, the Board approved Resolution No. 2122-0028 – Proposed Adjustments for 2022-23 Budget. Resolution No. 2122-0028, including \$40.1 million in budget-balancing solutions, of which a portion totaling \$7.3 million had been previously approved by the Board.
- On January 12, 2022, the Board approved Resolution No. 2122-0026 - Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability. This Resolution directed OUSD’s Superintendent to present to the Board at the soonest possible opportunity a list of school consolidations that can be reasonably implemented by Fall 2022 and/or Fall 2023 and an analysis of the projected ongoing financial impact of the proposed consolidations.
- As a result, OUSD initially presented to the Board on January 31, 2022, Resolution No. 2122-0030 - School Consolidations for 2022-23 and 2023-24. At a special meeting held on February 8, 2022, this Resolution was revisited and District fiscal staff presented maximum potential savings ranging from \$4.1 million (Unrestricted General Fund) to \$14.7 million (Combined Unrestricted and Restricted General Fund) from proposed school closures, school mergers, and Certificated staffing adjustments.
- The Board adopted the final version of this Resolution on February 8, 2022. These closures and consolidations would further entitle OUSD to an additional \$10 million in the final AB1840 dollars earmarked for OUSD.

Risk of Potential Insolvency Indicators

Based on the 2021-22 Second Interim assessment of the District’s risk or potential insolvency, using indicators developed by the Fiscal Crisis and Management Assistance Team (FCMAT), OUSD continues to meet 11 of the 15 indicators which are listed below.

Lack of Going Concern Determination

ACOE has received OUSD’s letter requesting the removal of the Lack of Going Concern determination for Oakland Unified School District. In ACOE’s November 8, 2021 letter to the OUSD Governing Board, serious concerns were expressed regarding the District’s fiscal condition and multi-year projections that continued to show that OUSD was unable to meet its fiscal obligations in the current plus two subsequent years as required by Education Code 42131.



Each item listed in the lack of going concern section of the November 8, 2021 letter indicated 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 were identified as 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

Since the release of the November 8th ACOE letter, OUSD self-certified as "Qualified" at 1st Interim (December 15, 2021). ACOE reviewed the District's 1st Interim and concurred with the self-certification that OUSD may not meet all of its fiscal obligations in the current plus two subsequent years. Since December 2021, there has been a series of OUSD Board meetings regarding the District's budget. The Governing Board should be recognized for the budget balancing solutions that have been recently identified and approved. The OUSD Governing Board has the fiduciary responsibility to maintain fiscal solvency for the current and subsequent fiscal years. It is important to note that with the OUSD's recent 2nd Interim self-certification as "Qualified", more action is still needed to ensure that OUSD stays on the path to a balanced budget with a positive certification.

With the most recent Governing Board actions supporting OUSD's Budget projections, and the OUSD staff directed to implement the detailed budget balancing solutions, I am willing to remove the Lack of Going Concern determination effective immediately. However, in order to avoid a Lack of Going Concern designation in the future, the following conditions are required to be met over the next 12 months.



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Category	Condition	Timeline
Budget Development	<ol style="list-style-type: none"> Submit a Third Interim Budget that adheres to ACOE assumptions/guidance, includes the impact of the recent ADA decline, only a detailed list of Board-approved reductions , and the fiscal impact of the recent CBAs. The District should make progress towards meeting the REU in all three years. <ul style="list-style-type: none"> Expectation: <ul style="list-style-type: none"> <i>*OUSD staff to ensure that fund balance designations are included and appropriate.</i> <i>* The Board shall direct staff to follow through on all of OUSD’s recent approved budget-balancing solutions.</i> 	ASAP or by June 1, 2022
	<ol style="list-style-type: none"> If any of the Board-approved reductions do not materialize, the Governing Board will immediately identify and approve additional reductions and/or budget-balancing solutions in their place that will be included in the revised 3rd Interim, in order to maintain the agreed-upon target reductions (<u>\$50 million or more depending on the fiscal impact of current and future CBA’s and current budget assumptions</u>). 	ASAP or by June 1, 2022
	<ol style="list-style-type: none"> Since the OUSD Fiscal Sustainability Plan has yet to be finalized with action steps, continue to operate under the OUSD Fiscal Vitality Plan with the expectation of making significant progress towards completion of targeted goals identified in the plan. District staff must present updates on the Fiscal Vitality plan to the OUSD Governing Board and ACOE once a month from April 2022 and until all identified actions items are complete. 	Continuous



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Budget Monitoring and Budget Updates	<ol style="list-style-type: none">1. The Governing Board must demonstrate it will implement its Board actions and hold staff accountable to follow through with Board-approved budget-balancing solutions to meet its multi-year obligations and planned reductions.2. The District staff must <i>present budget adjustment progress reports to the OUSD Governing Board and ACOE at every regularly scheduled Board meeting from April 2022 through June 2023.</i>3. District must meet statutory deadlines for personnel changes in FTE.4. Ensure all documents submitted to ACOE for reporting purposes are a complete submission and match Board-approved documents.<ol style="list-style-type: none">a. Assumptions workbooks for the budgetary reporting periods should be complete for submission.b. Certification pages, AB 2756, and SB 858 should be formally and properly signed.	Continuous
Cash Management	<ol style="list-style-type: none">1. District must retain positive cash balances. (TRANS needs should continue to be identified and utilized.)2. District must complete and submit a Cash Flow Statement with each adopted budget and interim reporting period.3. Board-approved staff signatories for warrant and payroll processing by April 30, 2022.	April 30, 2022 & Continuous



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Deficit Spending	<ol style="list-style-type: none">1. District ensures that all recently settled CBAs do not increase the deficit on an ongoing basis.2. District implements revisions necessary to address budget projections and only Board-approved reductions shall be included in MYP. Place holders in the MYP should not be included.	Continuous
Leadership and Communication	<ol style="list-style-type: none">1. Reschedule and complete the Board governance training sessions to occur no later than May 15, 2022.	ASAP or by May 15, 2022
Multi-Year Planning	<ol style="list-style-type: none">1. Include realistic assumptions (only Board-approved budget reductions and no “negative expenditure lines in the MYP”)2. In an effort to ensure that financial reporting is easily understood by the Governing Board and the public, all financial reports should show the District’s fiscal condition with and without budget-balancing solutions. The budgetary forecasts should unpack the significance of fiscal impact of Board-approved reductions, deficit spending, enrollment and revenue projections.	Continuous
Position Control	<ol style="list-style-type: none">1. Complete ACOE’s Assumptions’ workbook with the OUSD financial packet, which demonstrates FTEs in Fund 01 between restricted and unrestricted align with those in position control.	ASAP or by June 1, 2022



<p>Related Issues of Concern: a .Annual Independent Audit Report contains material apportionment or internal control findings</p>	<ol style="list-style-type: none"> 1. Board to monitor the action plan to correct the recent external audit findings and have staff provide monthly progress reports to the Governing Board and ACOE regarding the implementation of the plan. <ol style="list-style-type: none"> a. Staff reports should include policies/procedures/operational changes that are needed and will be implemented to finalize audit corrective measures. b. Board to direct staff to resolve at minimum 60% of the OUSD audit findings by 12/15/22 and remaining audit findings by 12/15/23. 	<p>ASAP</p>
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ACOE has no greater desire than to keep OUSD’s control local, ensuring the District’s engagement with its community, as OUSD directs resources to those of greatest need. As such, ACOE continues to carefully monitor OUSD’s progress in providing sound financial assumptions that include realizable budgetary projections that have both been presented publicly and approved by the OUSD Board.

Oakland’s Shared Value of Student’s First, Integrity and Excellence

OUSD states on the home page of its Finance Division website, a “financially healthy District is critical to providing the necessary resources and services to students with the greatest need. To promote fiscal vitality, we must tap into our shared values of *Students First, Integrity* and *Excellence*. Our values are what will keep us focused on our future.” OUSD’s Fiscal Vitality plan is pivotal in monitoring OUSD’s local progress of its goal to provide students with the resources they need to succeed. OUSD should revisit its 2018-20 Fiscal Vitality benchmarks and review its progress, as many of the elements to remove the Lack of Going Concern are outlined in OUSD’s own recommendations to its 2017-18 fiscal risks. As a condition of the removal of the Lack of Going Concern, ACOE will continue to regularly monitor OUSD’s progress toward the benchmarks outlined in the Fiscal Vitality Plan. Given this, we strongly recommend the Board acknowledge the ongoing relevance/use of the plan to guide fiscal recovery.



As such, ACOE confirms that the OUSD Board is taking steps to ensure that fiscal solvency is a priority. While the “Lack of Going Concern” determination is being removed, it is important to note that much work is needed to remain on this trajectory. OUSD will continue to be held to the same standards as other districts within Alameda County and among the state, and we look forward to the District making significant and ongoing progress toward achieving fiscal stability in order to best serve its students.

Conclusion

While the Governor’s state budget proposal in January appears favorable, this proposal may or may not materialize as OUSD anticipates. The District may have to navigate additional declines in enrollment and ADA and the impact of the aforementioned collective bargaining settlements. The OUSD Board should be prepared with multiple scenarios, ensuring contingency plans are in place that can be swiftly implemented. ACOE expects to receive OUSD’s Third Interim Budget Report by June 1, 2022.

As we continue to navigate our pandemic normal, mitigating staffing shortages, COVID outbreaks, enrollment challenges, as well as student educational loss, ACOE recognizes the pivotal role our educators, support staff and educational leaders hold for our community and our children. These continue to be unprecedented times, as our districts move to respond swiftly to new scenarios ensuring the safety of our students and faculty. We appreciate the Board’s continued efforts to ensure it upholds its fiduciary responsibilities while prioritizing services for those most in need. ACOE looks forward to continuing to work with the OUSD staff as we navigate the effects of the pandemic on student learning and fiscal sustainability.

We want to be certain that sight is never lost of our ultimate purpose - to serve our students, and to provide them the resources they require to prosper not only in school, but in their future lives. The ACOE fiscal team and I would like to acknowledge the difficult financial decisions the District is facing now and in the near future and will continue to assist and support to ensure the District realizes its goal of attaining and maintaining fiscal health. If you have any questions or concerns regarding our review or the process, please feel free to call Dr. Candi Clark, ACOE Associate Superintendent of Business Services, at (510) 670-4218.

Sincerely,

A handwritten signature in blue ink, appearing to read 'L.K. Monroe', with a long horizontal flourish extending to the right.

L.K. Monroe
Alameda County Superintendent of Schools



Alameda County Office of Education

L. K. Monroe 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
Michael H. Fine, Fiscal Crisis and Management Assistance Team
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