

Multi-Year Financial Sustainability Plan 2009 – 2011

December 17, 2008
2nd Draft Reading

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Executive Summary

District Goals

OUSD has posted the largest four-year Academic Performance Index (API) gain among large urban school districts. From 2004 to 2007, OUSD gained 57 points on its API growth score. From 2007 to 2008, the District gained another 16 points. However, with an API score of 657 OUSD still ranks low compared to other large urban districts. Although the District is accelerating student achievement, more effort is needed. It is important to note that a significant achievement gap still exists at OUSD, and presents an ongoing focus for improvement.

OUSD has developed a strong model for School Portfolio Management (SPM), and has successfully made difficult decisions about individual school closures, openings, and restructuring. In the next two years, SPM will be crucial as the District confronts budget cuts due to the California state budget crisis. SPM will play a key role in the decision-making processes that ensure the financial sustainability of the District's schools.

History: An Update to the 2005 Multi-Year Fiscal Recovery Plan

The Multi-Year Fiscal Recovery Plan (MYFRP), published in July 2005, provided the District with a roadmap toward fiscal solvency that recommended the implementation of various policies, processes, and reforms. The implementation of many of these recommendations has helped position OUSD to continue on the path to fiscal stability. While all recommendations have had an impact on the District's financial position, there is a subset focused on driving OUSD toward financial solvency. These include:

1. Resolve Audit Findings from Prior Fiscal Years (2002-03 and 2003-04)
2. Repayment of General Obligation (GO) Bonds from Capital Facilities Fund
3. Charge Indirect Cost Rate to Routine, Restricted Maintenance Account (RRMA)
4. Charge Charter Schools for Excess Special Education Costs
5. Repayment of State Loan from Fund 12
6. Repayment of State Loan from Fund 13
7. Increase Worker's Compensation Reserves
8. Increase MAA Reimbursement over 2003-04 Base
9. Increase LEA Reimbursement Claims over 2003-04 Base
10. Sell or Lease Surplus Property

The District will continue to pursue implementation of these recommendations, in conjunction with the MYFSP, to sustain fiscal health.

The Importance of Effective Resource Use

If the District is to create an environment in which it is able to balance financial solvency and academic improvement, there must be a shared understanding among all employees, at all levels and functions, about what financial solvency means, how it tangibly impacts each employees' day-to-day work, and how it enables student results. By engaging all employees and stakeholders in the process of strategically and effectively allocating resources, the District lays the foundation for a new culture that prioritizes effective resource use and a common understanding of its critical importance. Pursuing more effective allocation of resources requires

continued investment of time and resources to engage all stakeholders, including Service Area leaders, Instructional leaders, teachers, school site councils, parents, and students.

Factors Affecting District Budgets

Declining Enrollment: From autumn 2000 to autumn 2008 the District experienced a decline in enrollment of over 15,000 students. All California school districts receive both unrestricted and restricted resources based upon the number of enrolled students. As a result of this dramatic decline in enrollment, OUSD has been put under tremendous pressure to ensure that expenditures do not exceed available revenues.

Recommendations: Stabilize enrollment, right-size Central Office expenses, pursue revenue-generating opportunities, and continue to refine the District's portfolio of schools.

Impact of Charter Schools: The District loses revenue when a child leaves OUSD schools. Families choosing to enroll their children in charter schools have contributed significantly to OUSD's loss in enrollment. If charters are benefiting students and are following the stipulations in their charter, they will continue to exist in Oakland. Therefore, this section looks at ways to minimize the financial impacts of charters on OUSD, while maximizing the benefits to students.

Recommendations: Increase learning from charter schools, monitor costs per student, and explore the possibility of selling services to charter schools.

State Budget Crisis: Recent state budget cuts and economic trends indicate that the District must brace itself for additional cuts to programs for the next two years. Long term management of fluctuations in state funding will require finding ways to generate consistent supplemental revenue and mitigate funding decreases to stabilize the District in times of shortfall.

Recommendations: Establish a "Rainy Day" fund, look for alternative funding sources, increase General Fund reserves, align District resources and increase transparency of allocations, develop and update the budget dashboard, and seek funding flexibility.

Fiscal Policies and Controls

Results-Based Budgeting: Results-Based Budgeting (RBB) is OUSD's unique budgeting process, based on a per student formula that accounts for all expenses associated with school operations. The District implemented RBB district-wide in the 2004–05 academic year. American Institutes for Research (AIR) conducted a study of the roll out and results of RBB over the course of 2007–08. The AIR findings, combined with the District's own analysis of RBB, provide a solid basis for targeted process improvements.

Recommendations: Enhance the RBB technology tools, provide differentiated support and training, build transparency at the Central Office, explore ways to streamline compliance processes, and review and refine RBB each year.

Service Culture: The foundation of the District's service culture rests in the Service Economy that was introduced with the RBB system. The Service Economy model created confusion over which services could be purchased from the District, and faced other limitations created by collective bargaining agreements and decreasing

funding. After gathering feedback on the Service Economy, the District moved away from the model in the fall of 2008. Providing the highest quality service remains a priority in the Service Areas, and is reflected in OUSD’s training programs, performance management initiatives, and philosophy of continuous process improvement.

Recommendations: Continue to increase the proportion of funding going to school sites, increase access to accurate and easy to understand cost information, tie budget development to performance management cycles, explore opportunities to generate additional revenue by selling services to outside organizations, and work with bargaining units to revise evaluations (per Board Policy) to link performance to student results.

School Size Financial Analysis: Merger or closure of schools will enable OUSD to provide the level of quality education students and families deserve. School closures are always extremely difficult. However, the reality is that with continued declining enrollment, the OUSD community has been facing real and possible school closures for each of the past five years. Implementing a Right Size plan in a cohesive and strategic manner will enable a sense of stability and focus on academic achievement, which is not possible when school closures are on the horizon every year.

Proposed timeline:

Date	Activity
May 22, 2008	Draft MYFSP: Presentation of Proposed Timeline and Criteria
June 11, 2008	Final MYFSP: Presentation of Proposed Timeline and Criteria
August 27, 2008	Presentation of detailed community engagement process
September/October 2008	Interim Superintendent and Strategy Team led community engagement regarding proposed criteria for Right Sizing Plan
Nov 25, 2008	Presentation of Final Right Size Plan using School Portfolio Management recommendations (based on community feedback)
Dec 17, 2008	Decision to use School Portfolio Management recommendations for 2009-10 is finalized
Jan. – June 2009	Preparation for implementation recommendations: HR, Facilities, etc.
July 2009	Right Size plan implemented

Debt Structure and Control: The District carries primarily three types of debt. Below is a high-level synopsis of the types of debt the OUSD carries as of November 2008, and the remaining obligations.

- General Obligation (GO) bonds \$563.9 million
- Lease Revenue bonds (COP) \$ 8.1 million
- Emergency State Loan (State Drawdown)
 - 2003 State Drawdown \$ 56.6 million
 - 2006 State Drawdown \$ 32 million

Recommendations: Thoroughly evaluate future GO bonds and limit borrowing to fixed interest loans.

Resolving Audit Findings: Since the release of the 2002-03 audit, the District has worked diligently to resolve identified audit findings, while simultaneously developing systems and procedures that take corrective action to ensure the organization is operating within the legal limits established by the Education Code. The resolution of audit findings from prior fiscal years has had a positive effect on the organization’s financial position. For example, the 2002-03 audit identified over \$33 million in questioned costs. However, the District was able to resolve 97% of the audit findings resulting in a final audit liability of just \$911,846.

Recommendations: Expedite the process, avoid future audit findings, and increase preparation time for each audit.

Credit Rating Restoration: Since 2005, OUSD has taken significant steps toward improving its financial condition. Analysis by two independent, third-party organizations has confirmed this progress. In June 2007, rating reviews conducted by Standard & Poor's (S&P) and Moody's Investors Service indicated notable improvement in a variety of indicators of the District's financial health, including audit finding resolution, strengthened internal financial controls, and effective expense management. As a result of these observations and other factors, OUSD was upgraded by both credit rating agencies. The District can further improve its credit rating to improve its position as a borrower.

Recommendations: Expedite resolution of audit findings, follow through on MYFSP recommendations for 2009 to 2011, thoroughly evaluate programs and reform efforts, and build General Purpose Fund reserves.

Revenue Enhancements

Asset Management: Selling or leasing District property may provide an opportunity to raise revenue. Proceeds from the sale may be deposited in the General Purpose fund if a district has no anticipated need for additional sites or building construction for the ten-year period following the sale, and a district has no major deferred maintenance requirements. Proceeds from the sale of school district property are to be used for one-time expenditures, and may not be used for ongoing expenditures such as salaries and/or other general operating expenses. As of Fall 2008, OUSD intends to hire a consultant or firm to assist with the development of an Asset Management Plan and started the process by requesting proposals.

As a part of the 2005 MYFSP, the District explored selling the 1025 2nd Avenue Central Office building to assist in paying off the State Drawdown loans. The District chose not to sell the building at that time, but that decision may be reconsidered in the future.

Recommendation: Regularly review opportunities.

Increasing Average Daily Attendance: Since the publication of the 2005 MYFRP, OUSD has introduced various strategies to increase ADA within the schools including the introduction of services to schools such as attendance compliance officers. Due to limited funds, only one attendance compliance officer currently funded through Central Office dollars, and very few funded at the school sites. In addition, the school district opened a Truancy and Prevention Center to help recover students and bring them back into the school system. Data from the Center over the past three years has been inconclusive as to its impact on attendance.

Financially, the absence of students in OUSD schools means fewer dollars that can be made available to fund school-based programs and activities to benefit Oakland's students.

Recommendations: Build capacity among attendance officers/clerks, enforce the use of technology tools and conduct quality checks, evaluate the Attend & Achieve Campaign, and invest in dropout recovery.

Class Size Reduction: State CSR funding is made available to all school districts that qualify for the program. OUSD continues to participate in the K-3 program and the Morgan Hart program for ninth graders. CSR funding does not cover the full cost for implementation in the District, and the cost of implementing CSR encroaches upon other unrestricted monies. To supplement the additional, unfunded cost, the Oakland community has made continual investments of parcel tax revenues. During the 2005-06 school year, OUSD invested \$4.58 million outside of CSR funding to support CSR; during the 2006-07 school year the District invested \$4.9 million in additional funding; during 2007-08 school year, the District invested \$4.2 million to support the program.

Decisions about how to best implement CSR should be made at the site level, by school leaders who have the best understanding of the needs of their students. It is important to ensure that principals and teachers understand the full requirements and funding implications of participation in the CSR program, and can accurately evaluate their CSR decisions for both instructional and financial impacts.

Recommendation: Conduct annual CSR cost analysis.

Private fundraising: In OUSD, private funds are critical to our school reform efforts. The District relies on private funds to pilot new structures and programs, evaluate them, and then integrate the most successful elements into the District, where appropriate taking them to scale across all of our schools. OUSD created a Strategic Projects Office in spring 2008 to maintain current funding partnerships and form new funding relationships to support strategic reform efforts, maintain all financial and project reporting, and ensure project milestones are reached. The Board of Education, Superintendent, and Cabinet determine the District's strategic priorities for private funding, review grant proposals and reports, and monitor progress against metrics. For the coming five years, our goal is to raise \$3 to 7 million per year.

Recommendations: Build consensus around fundraising goals, build fundraising partnerships, align the use of private and public funds, and share results.

Leveraging Local Tax Bases: A tool often used by school districts to levy additional resources is the local parcel tax. In Oakland, the local parcel tax, Measure E, generated an additional \$20.1 million for the school district each year. In February 2008, the voters approved Measure G, a successor to Measure E and a permanent parcel tax for schools that will generate the same amount of revenue each year. In November 2008, the State Administrator sought voter approval for another parcel tax, listed on the ballot as Measure N. Measure N would have directed 85% of proceeds toward teacher compensation, with the other 15% earmarked for use at the charter schools in Oakland. Opposed by all of the District's employee unions, the ballot measure did not pass.

Recommendations: Continue to pursue a new parcel tax, include all stakeholders to ensure backing, secure campaign funding, and design the parcel tax for success.

Redevelopment Agency Proceeds: The 2005 MYFRP recommended that annual payments received from the RDA be used to pay for the COP debt service payments. Previous to the MYFRP recommendation, COP payments came from the General Fund. Due to the worsening economic crisis, during the summer and fall of 2008 the variable interest rates on the District's COP loans skyrocketed from around 2% to 10%. The District took action to avoid the extreme increase in the cost of carrying COP debt. At the October 29, 2008 Board of Education meeting, the State Administrator approved a plan under which OUSD would immediately payoff all COP debt from RDA reserves (a two-year loan from the Special Reserve Fund 17 enabled this payoff scenario).

Recommendations: After the special reserve fund is reimbursed, the Superintendent's cabinet will make recommendations to the State Administrator and Board of Education for approval of special Facilities projects.

Expenditure Controls

Managing the Use of Consultants and Vendors: Individual sites and departments that may be using the same, or similar, consultants and vendors do not have a quick and easy way to share information on negotiated rates, other contract terms, or the quality of the services delivered by contractors. Recently, new billing rate guidelines have brought alignment to how consultants are paid across sites, but increased transparency in the contract process would allow for District employees to negotiate even more competitive terms when working with outside vendors. The District's current process for managing contracts demands considerable time from executives, as they review many individual agreements. In addition, the lack of an efficient system means that some smaller contracts may not be reviewed at the executive level. The cumbersome process limits District leaders' ability to respond quickly to urgent needs and emergencies. Additionally, the outdated process is difficult to navigate, and is one of the primary reasons principals cite for carryover of categorical funds.

Recommendations: Develop District contracts with vendors, consider creating a Contract Analyst position, build a technology tool to streamline processes, minimize the use of contractors, and limit General Purpose fund spending.

Retaining High Performing Employees: Schools with high turnover have an added challenge in their work to raise student achievement. A large portion of district and site-based resources are diverted to the constant need to rebuild staff. Human and financial capital is spent on the process of hiring and replacing employees, rather than directed towards ongoing academic programs. In 2007, The National Commission on Teaching and America's Future (NCTAF) piloted an 18-month study of these costs. The study's Teacher Turnover Cost Calculator estimates the total hard cost of teachers leaving OUSD to be \$10.325 million (approximately \$34,400 per teacher) in 2008-09 alone. This figure does not reflect the impacts of turnover on student achievement.

Recommendations: Better data collection, highlight the value of OUSD benefits, consider options to boost salaries, prepare for increased turnover as baby boomers retire, and regularly review retention and turnover.

Investing in technology: The implementation of the District's Information Technology strategic plan, now being developed, will improve the quality of technology tools available to support student achievement and decrease the costs of providing business services. The strategic plan outlines a process for upgrading the technology infrastructure across the District over the next four years. This will enable every administrator, teacher, and student to access computers and networks to stimulate teaching and learning, as well as facilitate the use data.

Recommendations: Continue the use of private funding to update systems, look for corporate partnerships, require that new technology is used, and prioritize the creation of a central data storage system.

Reducing Utility Costs: Over the past three years, OUSD has spent in excess of \$8 million on utilities such as disposal services, gas, recycling, electric, water, and telephone. That is approximately 4% of the District's unrestricted General Fund. In 2007-08, that was roughly \$210 per student that the District spent on basic utility functions. Given the District's continued progress toward financial sustainability and the status of the State budget outlook for 2008-09, it is imperative to pursue opportunities that may realize cost savings for the District.

Recommendations: Develop a school utility refund program, conduct research on potential state energy rebates, revisit District-wide opportunities for installing green products, and increase recycling.

Contribution to Special Education: In recent years, the cost to provide services to Special Education students has risen much more quickly than increases in revenue made available to California school districts for these costs. Additionally, local school districts are being asked to shoulder a greater burden of the cost for Special Education as state and federal contributions make-up a smaller portion of the total cost.

Historically, the District has been able to contain Special Education costs relatively well, keeping an emphasis on efficiency, and maximizing the use of Special Education dollars to result in the best programs for students. Special Education costs are now growing. One contributing factor is a shift in the number of students with needs that are difficult and expensive to serve.

Recommendations: Strengthen operational controls for PEC, move students to District programs, invest resources in recruiting speech therapists, redistribute human capital, support cost claim settlement, and revisit ADA reporting procedures.

Containing Vacation and Sick Leave: The District carries vacation leave that has not yet been used by employees as a financial liability. Under some employment agreements, the District must pay out the value of unused vacation days to employees at the time they separate from the District. In November of 2008, the value of outstanding vacation leave as calculated by Payroll Services was \$5,330,644.43.

Recommendations: Monitor employee leaves, create a District pool, adapt IFAS to track leaves, and work with collective bargaining units to close offices during the holidays.

Employee Health & Welfare Benefits: Over the past five years, the cost of offering quality health and welfare benefits to employees has meant that a larger proportion of employee compensation is comprised of healthcare benefit costs. In the past three years health and welfare benefit costs have been increasing at a faster rate than COLA adjustments provided from the state. The result of this trend is that a larger proportion of OUSD's discretionary dollars are paying healthcare companies for rising premium costs rather than being spent on academic opportunities for students. For example, the table below shows that in 2007-08 health and welfare benefits comprised 12.2% of total compensation, versus 11.7% in 2004-05.

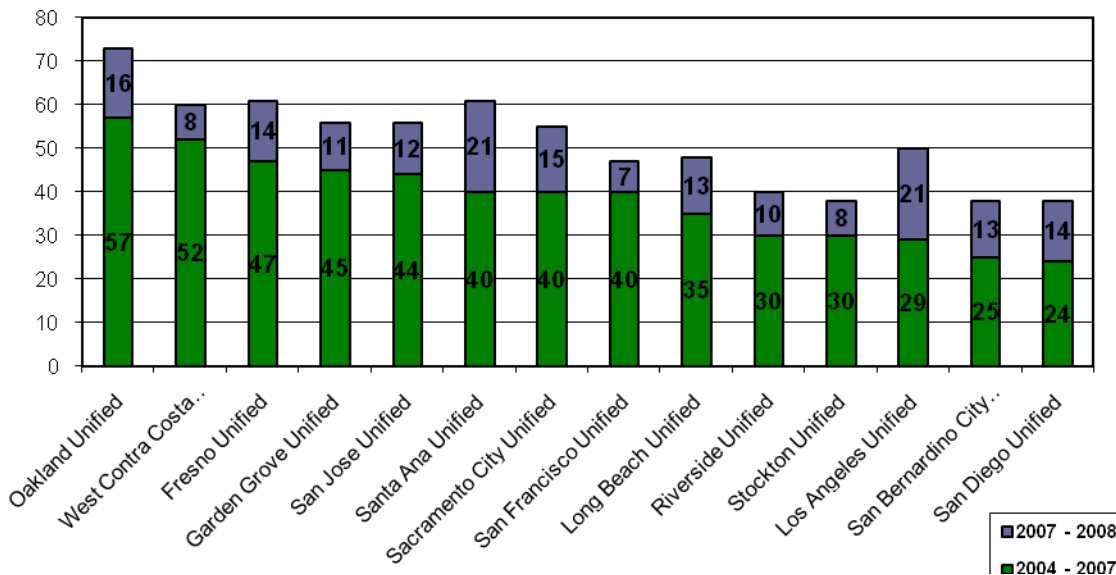
Recommendations: Promote the Employee Wellness Policy, offer incentives for healthy behavior, revisit cost containment strategies, increase transparency of the District's health & welfare costs, and explore opportunities to lobby for change.

Monthly budget reviews: With many demands on shrinking funding streams, OUSD cannot afford to be irresponsible or careless in the use of its limited resources. The effective allocation and use of these resources is an organization-wide responsibility that touches not just the Financial Services division of the school district, but every school and Central Office employee. The ability for administrators to effectively manage their budgets has a profound effect on the ability to implement, monitor, and evaluate programs that serve students.

Recommendations: Conduct Strategic Budgeting Seminars, require additional site administrator training, and move to a self-regulating model.

District Goals

OUSD has posted the largest four-year Academic Performance Index (API) gain among large urban school districts. From 2004 to 2007, OUSD gained 57 points on its API growth score. From 2007 to 2008, the District gained another 16 points. However, with an API score of 657 OUSD still ranks low compared to other large urban districts. Although the District is accelerating student achievement, more effort is needed. OUSD has implemented a Performance Management/Program Evaluation to ensure that programs and strategies are analyzed for effectiveness, and that resources are put toward programs that produce results or replacing or overhauling ineffective programs.



Federal Adequate Yearly Progress (AYP). At 36.8%, OUSD exceeded the federal target of 34.0% overall demonstrating proficiency in English Language Arts. At 41.9%, OUSD also surpassed the federal target of 34.6% overall proficient in Mathematics. However, we fell short for nearly all subgroups in English Language Arts. African American (28.9%), Latino (26.2%), English Learners (25.1%), Socio-economically disadvantaged (17.5%), and students with disabilities (30%) scored below the target; white (81.1%) and Asian (58.1%) students scored above. We did meet or exceed our targets for most subgroups for mathematics, except for African American students (29.0%) and students with disabilities (20.2%).

California Academic Performance Index (API). At 674, OUSD exceeded the state’s growth target of 665 for students overall.

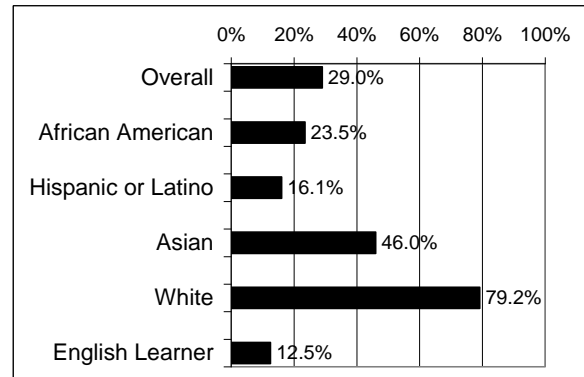
OUSD organizational goals. The mission of the District is, “that all students graduate as caring, competent and critical thinkers, fully informed, engaged and contributing citizens, prepared to succeed in college and career.” In 2007, as a part of the *Expect Success Initiative*, OUSD set a District-wide goal that all students will meet or exceed rigorous standards in all academic disciplines. Progress towards these objectives is measured by the

assessment of three milestones for OUSD students: mastery of reading and writing at the end of third grade, success in algebra at the end of ninth grade, and graduation.

The District Scorecard shows that although OUSD made progress in the area of third grade reading, it did not meet our growth targets set forth by the Board of Education’s Student Results Policy that all students will read and write by the end of third grade, succeed in algebra by the end of ninth grade, graduate.

4. All students will read and write by the end of third grade

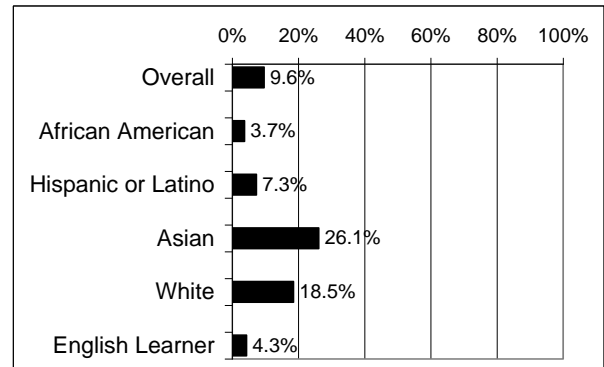
	2007	2008	2008 Target	Target Met	2009 Target
Overall	26.3%	29.0%	31.3%	NO	34.0%
African American	20.9%	23.5%	28.4%	NO	31.0%
Hispanic or Latino	13.5%	16.1%	21.0%	NO	23.6%
Asian	50.1%	46.0%	55.1%	NO	51.0%
White	75.2%	79.2%	80.2%	NO	84.2%
English Learner	5.8%	12.5%	13.3%	NO	20.0%



For success in Algebra, the District measures the percent of students who score proficient on the Algebra 1 CST and pass Algebra 1 with a grade of C or better by the end of ninth grade. In 2008, 9.6% of OUSD students have met this measure of success, only a slight improvement over 2007, when 8.6% of students met the criteria.

5. All students will achieve success in algebra by the end of ninth grade

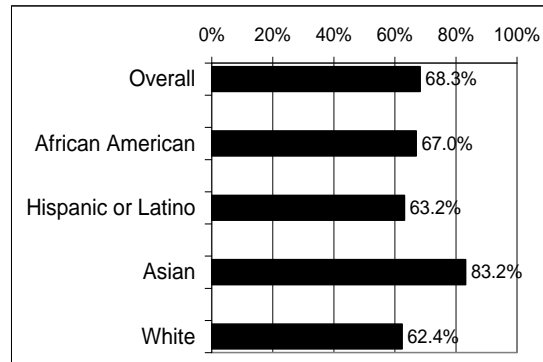
	2007	2008	2008 Target	Target Met	2009 Target
Overall	8.6%	9.6%	NA	NA	14.6%
African American	4.4%	3.7%	NA	NA	11.2%
Hispanic or Latino	4.9%	7.3%	NA	NA	12.3%
Asian	23.7%	26.1%	NA	NA	31.1%
White	12.5%	18.5%	NA	NA	23.5%
English Learner	1.7%	4.3%	NA	NA	11.8%



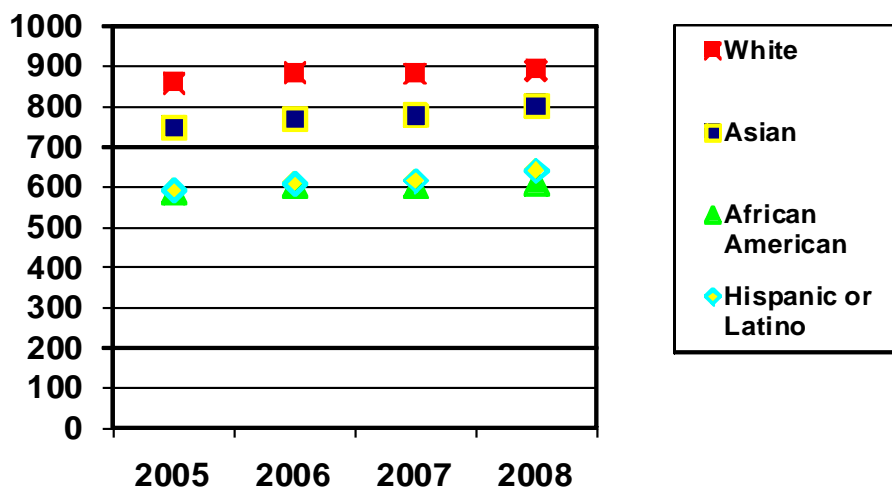
Our overall four-year graduation rate for 2006 was 60.8%, which increased to 68.3% in 2007. The rate for 2008 is not yet available.

6. All students will graduate prepared to succeed in college and career

	2006	2007	2007 Target	Target Met	2009 Target
Overall	60.8%	68.3%	NA	NA	+5.0%
African American	56.2%	67.0%	NA	NA	+5.0%
Hispanic or Latino	57.8%	63.2%	NA	NA	+5.0%
Asian	76.4%	83.2%	NA	NA	+5.0%
White	63.9%	62.4%	NA	NA	+5.0%
English Learner	NA	NA	NA	NA	+5.0%



It is important to note that a significant achievement gap still exists at OUSD, and presents an ongoing focus for improvement. Analysis of the achievement gap based on the API is reflected below.



School Portfolio Management

Another major district goal has been to increase the number of high quality options for families in OUSD by opening new schools, improving existing schools, and closing the lowest performing schools. Every family will have access to at least two quality school options in their neighborhood, and the ability to select from a diverse range of educational options throughout Oakland.

Schools' individual API scores for 2007-08, distributed across the geography of the District, show a continued a trend of offering better quality options for all families, including those families living in the poorest neighborhoods in Oakland. The number of schools posting API scores above 600 has dramatically improved between 1999 and 2008.

The District has seen substantial improvement in academic achievement over the three years that OUSD has established School Portfolio Management, and the tiered accountability and support system (TASS). The system uses a simple color-coded scale. Blue and green schools are the highest-performing, and are eligible to apply for flexibility from district-wide curricula. Red are the lowest-performing schools, followed by orange and yellow schools, all of which receive increased monitoring and support. From 2007 to 2008, the number of blue and green schools nearly doubled, from 14 to 27 schools, including the first green high school. The number of red and orange schools also increased from 27 to 37 schools, due primarily to higher performance standards under No Child Left Behind (NCLB).

Over the last 3 years, OUSD has developed a strong model for School Portfolio Management (SPM), and has successfully made difficult decisions about individual school closures, openings, and restructuring. In the next two years, SPM will be crucial as federal and state laws designate an increasing number of Oakland schools as failing to make sufficient progress and call for restructuring of those schools. In addition, as the District confronts budget cuts for 2009 due to the State of California budget crisis, SPM will play a key role in discussion and the decision-making processes that ensure the financial sustainability of the whole portfolio.

History: An Update to the 2005 Multi-Year Fiscal Recovery Plan

From 1994 to 2000 OUSD experienced increasing enrollment. This trend then reversed and by 2002-03 enrollment had declined by 2,450 students, equaling a \$10 million reduction in revenue. At that time, the District did not have sufficient controls to adequately monitor spending, and realized it would end the year with a negative fund balance. The District brought in various school finance experts and restructured the Business Services Division's management team to alleviate the situation, leaving many vacancies at all levels.

This situation led to the enactment of SB 39 in 2003, which authorized a state loan of up to \$100 million and the appointment of a State Administrator. FCMAT and other fiscal experts provided the District financial support from 2001-02 through 2003-04.

In the 2003-04 fiscal year, the District held budget hearings with Department heads, requiring administrators to provide justification for existing expenditures and to make recommendations for streamlining operational procedures to reduce spending with General Fund sources. This endeavor resulted in \$4.7 million of General Fund spending cuts and the elimination of approximately 90 full time employees in various departments at all levels of central administration.

OUSD exhausted every avenue to generate savings or minimize costs to the General Fund. The indirect cost rate applicable to the 2003-04 budget year calculation was understated due to coding problems with the account code structure. The District appealed to the State Department of Education and was successful at having the indirect cost rate increased to 2.84% from 1.43%, which benefited the General Purpose resource by \$1.6 million. Additionally, most of the bargaining units worked cooperatively with the District to reduce costs by negotiating salary rollbacks and modifying health plans. The agreements with the bargaining units generated reductions including savings from the School Employees Independent Union (SEIU) of \$275,600, Management of \$464,900, and additional savings in benefits of \$168,500 for both groups. The Oakland Education Association generated savings including benefits of \$12.1 million. Of the additional reductions, \$9.7 million was one-time funding cuts, and \$6.5 million represented a reduction of the special education encroachment to the general fund. The District reduced its overall expenditures in General Fund unrestricted resources by \$34.6 million by the end of the 2003-04 fiscal year.

The District then instituted two major operational procedures: the roll out of the new budgeting model, Results-Based Budgeting (RBB) for the 2004-05 budget year, and migration to the Bi-Tech Integrated Financial System (IFAS).

The District met the required 2% reserve for economic uncertainty as documented in the 2007-08 1st Interim Financial report and the 2008-09 Adopted Budget. Staff continuously review the budget to identify further savings and revenue enhancements. It is recognized that any reduction of on-going expenses in the current year avoids the compounding effect on a multi-year basis. Employee compensation, declining enrollment, and additional debt must be closely monitored to assure financial sustainability.

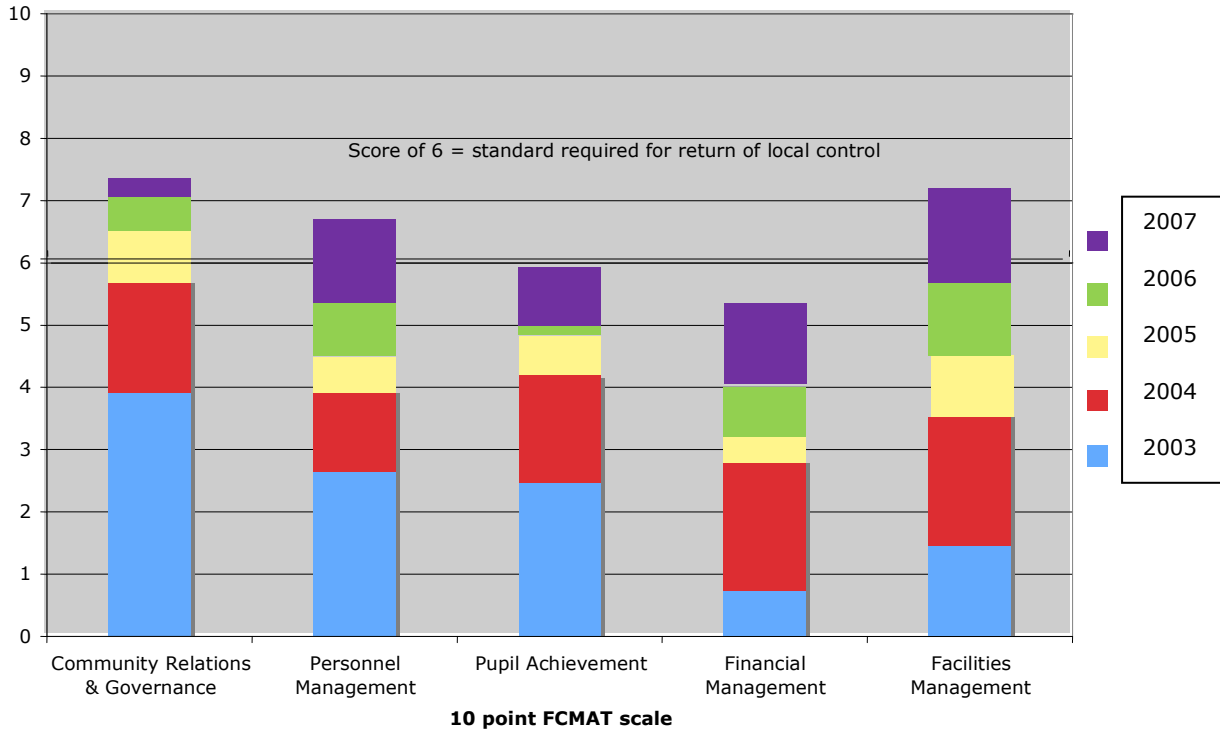
Senate Bill 39 required FCMAT to prepare an improvement plan for the school district by updating the January 2000 OUSD Assessment and Recovery Plan. The Senate Bill also required a report on implementation of the

improvement plan beginning in September 2003 with annual progress reports. The Assessment and Recovery Plan provided data to assist the District in achieving fiscal solvency, to build the necessary capacity to promote student learning, and to work toward the return of local governance. For local governance to be returned, the District must demonstrate proficiency by receiving an average score of a 6 or greater, on a scale of 1 to 10, with no individual standard within a functional area scoring below a 4. The five major functional areas are Community Relations and Governance, Pupil Achievement, Financial Management, Personnel Management, and Facilities Management. When each area meets the proficiency criteria, FCMAT will recommend to the Superintendent of Public Instruction that this condition of SB 39 has been met and control of that functional area could be returned to the Governing Board.

The overall FCMAT scores for each functional area, beginning with the initial assessment of September 2003 through December 2007, are shown on the FCMAT rating chart and graph below.

Operational Area	2003	2004	2005	2006	2007
Community Relations & Governance	3.92	5.73	6.42	7.00	7.27
Personnel Management	2.64	3.96	4.56	5.20	6.60
Pupil Achievement	2.47	4.20	4.57	5.00	5.87
Financial Management	0.73	2.83	3.10	4.00	5.30
Facilities Management	1.46	3.58	4.52	5.80	7.08

Progress on FCMAT standards by functional area



The operational areas of Community Relations & Governance, Personnel Management, and Facilities Management were returned to the local control of the governing board in April of 2008. FCMAT returned to the District in October of 2008 to assess the two remaining operational areas still under state receivership. The FCMAT report will be completed and published in December 2008.

Implementation of the 2005 Multi-Year Fiscal Recovery Plan

The Multi-Year Fiscal Recovery Plan (MYFRP), published in July 2005, provided the District with a roadmap toward fiscal solvency that recommended the implementation of various policies, processes, and reforms. The implementation of many of these recommendations has helped position OUSD to continue on the path to fiscal stability. While all recommendations have had an impact on the District's financial position, there is a subset focused on driving OUSD toward financial solvency. These include:

11. Resolve Audit Findings from Prior Fiscal Years (2002-03 and 2003-04)
12. Repayment of General Obligation (GO) Bonds from Capital Facilities Fund
13. Charge Indirect Cost Rate to Routine, Restricted Maintenance Account (RRMA)
14. Charge Charter Schools for Excess Special Education Costs
15. Repayment of State Loan from Fund 12
16. Repayment of State Loan from Fund 13
17. Increase Worker's Compensation Reserves
18. Increase MAA Reimbursement over 2003-04 Base
19. Increase LEA Reimbursement Claims over 2003-04 Base
20. Sell or Lease Surplus Property

A detailed recap of these 2005 MYFRP plan recommendations is provided below.

1. Resolve Audit Findings from Prior Fiscal Years

Background: Audit findings were unresolved with \$33.2 million in 2002-03 fiscal year and \$7.4 million in 2003-04 fiscal year. Total potential audit liability was \$40.6 million.

Update: In agreement with the State Controller's Office, OUSD's final audit liability for 2002-03 was \$911,856 of which \$611,856 has been paid through a reduction in principal apportionment in 2008-09. The remaining \$300,000 is being used by the District to implement FCMAT recommendations in the area of Financial Management.

The audit liability result for 2003-04 was \$887,029. The California Department of Education (CDE) agreed to allow OUSD to use the State Loan drawdown to cover this liability, and it has been paid.

Recommendation: This report recommends continuing to work with State Controller's Office to expedite the completion of outstanding audits. Further, the District recommends creating the appropriate internal structure that dedicates sufficient resources to avoid future audit findings and resolve findings in an expeditious fashion. Please see the "Resolving Audit Findings" section of this plan for additional detail.

2. Repayment of General Obligation (GO) Bonds from Capital Facilities Fund

Background: The 2002-03 fiscal year Facilities audit revealed the unallowable use of General Obligation (GO) bond proceeds to make payments on Certificates of Participation (COP) debt. Corrective action directed the District to repay the GO bond in the amount of \$16,013,926 (of which \$14,380,804 was principal plus \$1,633.122 in accrued interest).

Update: The District has repaid \$9,925,804 to the GO bond (Fund 21) from the Capital Facilities Fund (Fund 25) between 2004-05 fiscal year and the 2006-07 fiscal year. The payment source has been validated through District financial transaction documentation and audit work papers. The balance totaling

\$6,088,122 is to be repaid annually in twenty equal installments of \$304,406 from the General Fund starting in the 2007-08 fiscal year. The agreement authorizes the District to suspend payment in a year where there is deficit spending in the General Fund. Through the 2007-08 fiscal year total payments equal \$10,230,210 with a remaining balance of \$5,783,716.

Recommendation: Continue to repay the GO bond (Fund 21) following the agreed upon repayment schedule.

3. Charge Indirect Cost Rate to Routine, Restricted Maintenance Account (RRMA)

Background: The District was not collecting General Fund revenue by charging the RRMA for indirect cost.

Update: To be in compliance with the California Education Code and still take advantage of the additional General Fund revenue, the District implemented a strategy which used the required ½ of 1% (approximately \$2 million per year) General Fund contribution for the Deferred Maintenance match to be paid from the Routine Restricted Maintenance Account (RRMA). More specifically, this strategy resulted in an additional \$2 million in available cash for the General Fund.

Recommendation: Continue to pay the required Deferred Maintenance match using the generated indirect cost from the RRMA requirement.

4. Charge Charter Schools for Excess Special Education Costs

Background: The District was absorbing the large majority of special education costs for public school students within school district boundaries thereby increasing OUSD's overall special education encroachment.

Update: In the Memorandum of Understanding (MOU) that exists between charter schools and the District there is a provision that requires charter schools to reimburse the District for special education services provided to their pupils that contribute to the District's special education encroachment. Since the establishment of this provision, the District has been collecting fees for special education costs through its authority as a SELPA. Over a three-year span the District collected \$621,000 in additional revenue, helping to offset the overall District special education encroachment.

Recommendation: Continue the collection of special education fees through the District's authority as a SELPA. The District should explore opportunities to equitably balance the annual \$15 million special education General Fund encroachment. One such opportunity may be the expansion of special education services for charter schools and neighboring school districts.

5. Repayment of State Loan from Child Development (Fund 12)

Background: During the 2001-02 and 2002-03 fiscal years, the General Fund contributed \$1,028,467 and \$1,144,484, respectively, to the Child Development Fund to meet its expenditure obligations. In 2004-05, the Child Development Fund made the payment of \$1,028,467 back to the General Fund. The 2005 MYFRP recommended the balance of the encroachment (\$1,144,484) be paid in equal installments over 20 years and applied to the repayment of the State Loan. Equal installments are equivalent to \$57,224 per fiscal year.

Update: The Child Development Fund has made the first of twenty payments to assist in reducing the State Loan. Appendix G provides a full repayment schedule set to expire in the 2024-25 fiscal year.

Recommendation: The District should consider the cost-benefit of allowing the Child Development Fund to accelerate repayment of their debt to the General Fund, but at no time should it suspend the original agreement.

6. Repayment of State Loan from Child Nutrition Services (Fund 13)

Background: During the 2001-02 and 2002-03 fiscal years the General Fund contributed \$3,346,981 and \$789,873 to the Child Nutrition Services Fund to meet its expenditure obligations. The 2005 MYFRP recommended the encroachment (\$4,136,854) be paid in equal installments over 20 years and applied to the repayment of the State Loan. Equal installments are equivalent to \$206,843 per fiscal year.

Update: The Child Nutrition Services Fund has made the first three of the twenty payments to assist in reducing the State Loan. Appendix H provides a full repayment schedule set to expire in the 2024-25 fiscal year.

Recommendation: The District should consider the cost-benefit of allowing the Child Nutrition Services Fund to accelerate repayment of their debt to the General Fund, but at no time should it suspend the original agreement.

7. Increase Self-Insurance Reserves

Background: As part of the 2005 MYFRP the District was directed to increase the workers' compensation rate to generate the required self-insurance reserve to account for the District's potential unfunded liability over a twenty year period. In 2005, the unfunded workers' compensation liability was \$33 million with minimal cash assets in the bank. The District's plan was to increase the workers' compensation rate by 0.77% to 5.27%.

Update: In December 2007 Bay Actuarial Consultants completed an actuarial review of the District workers' compensation program. The projected workers' compensation liability was \$35.6 million with projected net asset reserves being approximately \$9 million as of June 30, 2008. The District's workers' compensation rate was 5.27%, as prescribed in the 2005 MYFRP. The projected net ending assets of \$9 million indicate that the 2005 MYFRP strategy was effective in helping to protect the District against a potential unfunded liability.

Recommendation: The December 2007 actuarial study and the 2007-08 2nd Interim financial report for the self-insurance fund project that the District is on track to raise the required reserves over a twenty year period, as recommended by FCMAT. This report recommends that the District obtain an actuarial study on a yearly basis to insure that the rates being charged will be sufficient to fully fund the self-insurance program.

8. Increase MAA Reimbursement over 2003-04 Base

Background: The Medi-Cal Administrative Activities (MAA) federal program was designed to reimburse school districts, county offices of education, and other government agencies for certain costs incurred in administration of the Medi-Cal funded activities. The 2005 MYFRP recommended increasing the MAA billing above the 2003-04 base of \$778,000. Appendix B shows a graph of the revenue claimed through the MAA program over the past 6 years.

Update: MAA has been able to generate unrestricted revenue for the District above the 2003-04 base for each of the past three years. More specifically, MAA reimbursements resulted in \$1.04 million in 2004-05, \$1.5 million in 2005-06, \$1.2 million in 2006-07, and \$1.7 million in 2007-08. Though the 2008-09 fiscal year has not ended, the program is estimated to generate at least \$1 million in unrestricted revenue for the District. The MAA program is set to expire in August 2008 under current federal legislation. However, new legislation (H.R. 5613) was introduced to the U.S. House of Representatives that would extend the life of the program for at least one more year. As of December 2008, the legislation is still pending.

Recommendation: Revenues are received approximately 12 to 18 months following the submitted claim. Therefore, even if the program expires in August 2008, the District would continue to receive dollars into the 2010 fiscal year. It is recommended that the District continue making claims up until the expiration of the legislation and that a portion of those revenues be directed to benefit school-based health programs, with the remainder used to boost General Fund reserves.

9. Increase LEA reimbursement over 2003-04 base

Background: The LEA Medi-Cal program service allows local education agencies (LEA) to be reimbursed for health and mental health services provided to Medi-Cal enrolled students and families. It is intended to support those schools not receiving Healthy Start grants. Revenue is received in the current year and generated dollars must support social service programs to specific target populations.

Update: This program has generated additional, restricted revenue for the District including \$355,846 in 2004-05, \$297,536 in 2005-06, and \$453,289 in 2006-07, and approximately \$396,860 in 2007-08.

Recommendation: This program has provided quality services to support integration of health and mental health services for children in Oakland schools. A continuation of this program, maintaining a target of at least \$350,000 per year in reimbursements, is recommended over the next three years.

10. Sell or lease surplus property

Background: The 2005 MYFRP recommended the District investigate and pursue opportunities to sell and/or lease surplus property to generate revenues to be used to pay down the State Loan.

Update: The District explored the opportunity to sell and/or lease surplus property during the 2006-07 fiscal year. It was decided that no action would be taken at that time.

Recommendation: Conduct analysis around the opportunity costs of using facilities to generate on-going or one-time proceeds for the District within regulations of the California Education Code. Opportunities should be considered within the context of anticipated, long-term enrollment trends, the District's Facilities Master Plan, and the short- and long-term benefits to the District's financial position. Please see the Asset Management portion of this plan for additional analysis and discussion.

Updated information on all of the recommendations of the 2005 MYFRP, are listed in the table in Appendix A. The District will continue to pursue implementation of these recommendations, in conjunction with the MYFSP, to sustain fiscal health.

Effective Resource Use

In outlining the philosophy and vision for the District's road to financial recovery, the 2005 MYFRP states, "One of the outcomes of OUSD focusing on financial solvency and academic achievement holistically is identifying how fiscal practices can be used to drive academic improvements." As with most public sector organizations, school districts must carefully consider how to attain their desired goals while operating within the boundaries of its limited resources. OUSD is no different. As the District has gone through recovery since 2003-04, it has been presented with an unprecedented opportunity to rethink how a public education system can maximize its resources to create programs that best serve students. Through efforts such as *Expect Success*, the District has been innovative and thoughtful about how schools and Central Office functions can better support the education of Oakland's children.

Within such a large organization, however, there must be structures and processes that allow employees to discuss, implement, and internalize any shift in mindset and culture. The District has worked to prioritize effective resource use and emphasize the importance of maximizing dollars spent to achieve the greatest possible outcome for students. There are several programs that the District has implemented that have supported this goal. Some include Results-Based Inquiry (RBI) cycles at school sites, the District's unique budgeting system Results-Based Budgeting (RBB), and the strategic planning process pursued through the Single Plan for Student Achievement (SPSA). Further change is needed for effective resource to become a defining value of the organization that is internalized by all branches of the OUSD community.

If the District is to create an environment in which it is able to balance financial solvency and academic improvement, there must be a shared understanding among all employees, at all levels and functions, about what financial solvency means, how it tangibly impacts each employees' day-to-day work, and how it enables student results. By engaging all employees and stakeholders in the process of strategically and effectively allocating resources, the District lays the foundation for a new culture and common understanding. The pursuit of the effective resource allocation complements and builds upon existing and effective processes within OUSD.

Additionally, research suggests maintaining policies and procedures that tie resource allocation to the goal of educating students will promote fiscal solvency in a school district. In a study conducted by School Services of California¹ in 2007, researchers found that there was a significant correlation among fiscally healthy school districts. Healthy districts enacted policies that aligned district goals to resource allocations and enabled the elimination of programs that did not align with goals.

In order to attain the District's goals for students and the goal of fiscal sustainability, the presence of process and supports that allow employees to consider the more effective use of resources is critical. Current budgeting practices effectively prevent the use of using many funding dollars. The number of categorical accounts and myriad uses for restricted funds makes tracking the use of the money a complicated and time consuming matter. Fewer limits on funding would facilitate resource use and simplify developing transparency in budgeting. Pursuing more effective allocation of resources requires continued investment of time and resources to engage all stakeholders, including Service Area leaders, Instructional leaders, teachers, school site councils, parents, and students.

¹ School Services of California (SSC) performed this research as a part of the Getting Down to Facts research study commissioned by the Committee on Excellence in Education. The study surveyed chief business officials across California.

Engaging All Stakeholders

The alignment between all levels of the organization allows expectations to be connected with actions. Strategic budgeting occurs at the four primary levels within the organization. These include the Board, the Cabinet, Central Office departments, and schools. Each of these levels has slightly different objectives but the constant among all parties is that resource allocation decisions are tied directly to the District’s goals. The strategic budgeting process should follow a predictable, annual cycle that also meets mandatory budget development and financial reporting guidelines. Below is an outline of what this cycle might look like. It is important to remember that this does not represent the entire calendar for budget development or implementation.

Level	Summer (July to August)	Fall (September to December)	Winter (January to March)	Spring (April to June)
Board	Establish Areas of Focus for Reform Efforts and Targets	Conduct Internal and External Analysis on Focus Areas: Gather feedback from all stakeholders, investigate benchmarks	Work with Staff to Provide Feedback on Funding Strategies to Reach Goals.	Review of Adopted Budget: Ensure funding alignment with goals for the coming year
Cabinet	Identify, Evaluate, and Identify Strategies to Achieve District Goals: Set schedule for Session discussions	Strategic Budgeting Sessions: Prioritize and align funding of programs for coming year through programmatic and fiscal evaluation/analysis	Budget Development: Frequent sessions to review funding priorities and alignment with programs to achieve goals	Review Upcoming Year’s Budget: Ensure that programming and funding are aligned o achieve goals.
Central Office departments	Budget Management Training: All senior administrators and program managers are trained to enhance skills around strategic budgeting and budget monitoring	Forming Service Improvement Plan (SIP): Review of prior year scorecard data to develop SIP	Budget Development: Complete RBB based upon priorities set by Board and Cabinet	Gather Performance Data from Customers: Collect data from Use Your Voice, evaluations, etc.
Schools (Results-Based Inquiry or RBI engagement)	RBI Cycle 1: Schools use CST data delivered in August to evaluate student gap areas; allocate carryover funds to fund gap areas	RBI Cycle 2: Principals engage in NExO, peer-to-peer inquiry that examines cost benefit of school-based instruction/program strategies; process and budget data provided	RBI Cycle 3 and Budget Development: Principals take revised instructional strategies with mid-year assessment data to complete SPSA and RBB	Refinement of SPSA and Instruction Strategies

Results-Based Budgeting and Site-Based Decision Making

Results-Based budgeting (RBB) combines the theory of student-based budgeting or dollars that follow the child and site-based decision making – providing authority to site administrators to make decisions about the allocation of resources. Site-based decision making is instrumental in an administrator’s ability to shift employees and other resources in a manner that responds to inquiry, data-driven discussions, and better meets District goals. Further, California school districts that are financially healthy tend to exhibit many of the features of site-based decision making. A 2007 study by School Services of California (SSC) concluded that, “Fiscally healthy districts are more likely to expect their sites to link financial decision making to school and student

performance outcomes.” Not only expectations but also policies are highly correlated with financially healthy school districts. The study also highlighted, “The districts that report providing site principals/administrators with staffing and budget flexibility to a great extent are significantly more likely to fall within the healthy category.”²

System expectations and policies alone are not enough to guarantee that resources are being used effectively to reach the goals of the school district. The most significant impact to the system is increased responsibility to the principal. In addition to being an instructional leader, principals within the District carry business and operational responsibilities. Therefore, the presence of training and capacity building activities is critical to creating the appropriate expectations and interaction between school sites and the Central Office. The SSC study states, “The extent of school site administrators receiving training related to fiscal management and budgeting is significantly greater among respondents from healthy districts.” As a consequence the SSC study further states, “Fiscally healthy school districts more often report that site leaders have improved understanding and awareness of financial skills.”

For a detailed discussion of RBB and recommendations for improvements to the budgeting process, please see Results-Based Budgeting on page 35.

² Categories include healthy, marginal, and unhealthy.

Declining Enrollment

[Note: This section will be revisited and revised with 08-09 enrollment analysis, coming in mid-December]

Overview

From autumn 2000 to autumn 2008 the District experienced a decline in enrollment of over 15,000 students. All California school districts receive both unrestricted and restricted resources based upon the number of enrolled students. As a result of this dramatic decline in enrollment, OUSD has been put under tremendous pressure to ensure that expenditures do not exceed available revenues.

Over the course of the past eight years, the District's severe enrollment loss has been due primarily to two factors:

1. Families moving out of Oakland due to increased cost of living in the Bay Area, and
2. Rapid growth of charter schools, which now comprise 16% of Oakland's public school enrollment.

Periodically, the District produces long-term enrollment projections that provide low, medium, and high enrollment forecasts based on different assumptions regarding grade progressions, the size of incoming kindergarten classes, birth trends, and impacts from new housing. The medium forecast assumes that the conditions experienced in the most recent year will continue. Specifically, this means that this year's set of grade progressions and ratio of births to kindergarten enrollments will continue in future years. Additional detail on the assumptions underlying the District's enrollment projections can be found in Appendix F.

The projections also assume that charter enrollments will continue to grow. The District has good data based on a school-by-school analysis to estimate charter enrollments for the autumn 2009. Unfortunately, there is little basis for forecasting charter enrollments beyond the 2009-10 school year. Therefore, a range of possible future charter enrollments are provided. By the end of the projection period, the low, medium, and high forecast scenarios assume charter enrollments will be between 22% and 31% of regular public school enrollment.

Analysis

The effect of declining enrollment on the school district's financial position is far reaching, not only because the District is unable to claim revenue for that student but also because time, energy, and resources are expended to make the appropriate reductions in expenses throughout the organization. Based upon the current revenue limit per average daily attendance (ADA), the District receives \$5,790 per ADA (though this number may change dependent on looming state budget cuts).

Through the Results-Based Budgeting (RBB) process the District is able to determine how the overall expenses translate to a cost per ADA basis. That is, a portion of the "per student" amount the District receives is attributable to specific costs. The expenses for OUSD can be broken down into the following four categories:

- | | |
|--|---------|
| 1. District-wide expenses (e.g., debt service, insurance premiums, etc.) | \$203 |
| 2. Encroachments (e.g., special education, Community Day, etc.) | \$880 |
| 3. Central expenses (e.g. HR, finance, IT, etc.) | \$801 |
| 4. School expenses (e.g., teachers, principals, supplies, etc.) | \$3,906 |

Over time, this enrollment loss has a compounding effect. The District loses revenue but must also continue to cut expenses to ensure financial stability. Using the projected student loss over the next five years and the most recent information available on changes in General Purpose funding from the state, the District will have lost approximately \$55.8 million over the six year period. The chart below provides year by year assumptions starting with the 2004-05 fiscal year as the base.

OUSD's Enrollment Trends and Revenue Impact

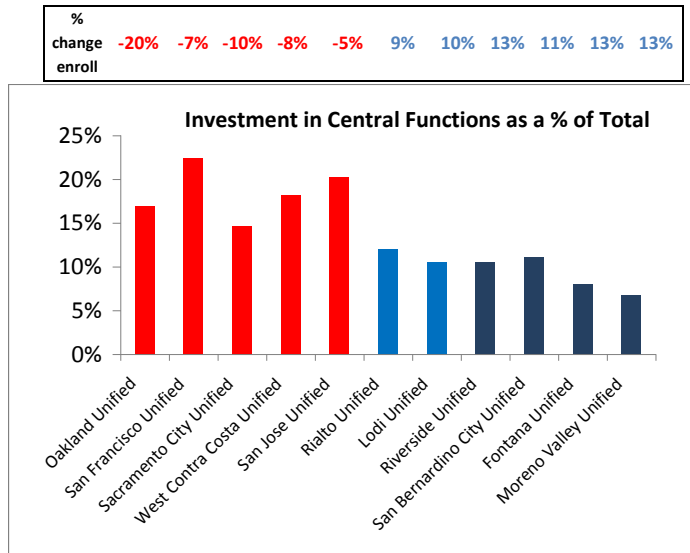
Year	District Enrollment	Charter Enrollment	Total Enrollment	District Enroll Change from Prior Year	% Change from Prior Year	RL per student (\$)	Projected RL loss (\$)
2004-05	45,089	4,125	49,214	(2,561)	-5.4%	\$4,961	\$(12,705,121)
2005-06	41,369	6,668	48,037	(3,720)	-8.3%	\$5,172	\$(19,239,840)
2006-07	39,964	7,228	46,922	(1,675)	-4.0%	\$5,538	\$(9,276,150)
2007-08	38,852	7,531	46,383	(1,112)	-2.8%	\$5,790	\$(6,438,480)
2008-09	38,640	8,001	46,641	(212)	-.55%	\$5,659	\$(1,199,708)
2009-10 (proj.)	38,428	8,471	46,899	(212)	-.54%	\$5,829	\$(1,235,748)
Total 6-year Revenue Loss							\$(50,095,047)

As of the winter of 2008, the decline in enrollment for the District is slowing. However enrollment continues to grow for charter schools in Oakland. This may be a sign that students are returning to the District from private schools, and that more parents and students are returning to live in Oakland as the downturn in the economy presents additional financial hardships for families in California. Enrollment for OUSD elementary schools jumped 2% for the 2008-09 school year. This jump was not paralleled in middle and high schools.

The consistent growth of charter school enrollment indicates that parents and students are choosing charter schools over District school options. This preference indicates a perception that charter schools are of higher quality than their District counterparts.

In a study by Education Resource Strategies (ERS), a research group that partnered with OUSD to understand resource allocation patterns within the District, it was determined that OUSD is similar to other declining enrollment districts across California because a larger proportion of resources are invested in central functions than in those districts with stable or growing enrollment.³ Unlike the cost structure for schools, central office services are not based on a variable cost model. The graph on the following page shows a breakdown of OUSD's spending on central functions, as compared to other districts with varying enrollment trends.

³ Education Resource Strategies. Winter 2008. OUSD Executive Summary of ERS Analysis. Waltham, MA.



Recommendations

Stabilize enrollment. The most effective method in which to stabilize enrollment is to offer a high quality education program for all students and their families. If the District is able to attain this goal, families will come back to OUSD schools. OUSD has made significant progress toward strengthening learning environments and providing families with multiple options for strong schools, and must continue to aggressively pursue these goals.

Right-size Central Office expenses. All districts reduce school site expenses when students leave. However, most school districts struggle to simultaneously reduce Central Office expenses. The District must identify Central Office services that can be tied directly to enrollment changes and modify those costs appropriately. Further, the investment in technology is critical to better streamline Central Office processes that can better support schools by freeing time and for instructional improvement.

Pursue revenue-generating opportunities. The District must develop means to supplement the revenue generated through enrollment. Please see the Revenue Enhancements section of this plan for detailed discussion and analysis.

Continue to refine the District's portfolio of schools. In order to balance the investment in Oakland small schools with the financial constraints of tiny schools it is recommended that a detailed Right Sizing Plan be created that considers the merger or closure of schools that are not achieving results and are not financially sustainable.

Impact of Charter Schools

Overview

As discussed in the previous section, the District loses revenue when a child leaves OUSD schools. Families choosing to enroll their children in charter schools have contributed significantly to OUSD's loss in enrollment.

California Charter Law stipulates that the local education agency (LEA) may authorize a charter school, or a county may authorize either a county-wide benefit charter school or one that has been denied by the LEA. OUSD is an LEA. However, the state may also authorize a state-wide benefit charter school or a charter school that is denied by both the LEA and the county. In short, if charters are benefiting students and are following the stipulations in their charter, they will continue to exist in Oakland. Therefore, this section will look at way to minimize the financial impacts of charters on OUSD, while maximizing the benefits to students.

The District's priority as an LEA is to ensure that families who send their children to Oakland public schools are receiving the highest quality education possible. To ensure this goal, the District redesigned the Office of Charter Schools in 2007 to increase transparency, collaboration and accountability for charter schools. The charter school office is 100% funded with 1% of charter school ADA revenue retained for this purpose (as allowed), so operational costs do not encroach on traditional public school funding

Analysis

Enrollment data for Oakland charter schools shows a decreasing trend over the past four years.

Academic Year	Oakland Charter Enrollment	% increase
2004-05	4,125 students	
2005-06	6,668 student	61.6%
2006-07	7,228 students	8.4%
2007-08	7,531 students	4.2%
2008-09	7,884 students	4.7%

The District has focused on improving charter oversight practices and increasing rigor and standards to ensure that only high-quality charter schools continue to operate. This reduces the number of low performing charter schools and reduces the risk of losing students to low-performing non-district schools. Recently revoked or closed charter schools include Space Exploration Academy, Junior Space Exploration Academy, Growing Children Charter School, and University Preparatory Charter Academy School. However, enrollment data provided by other Oakland charter schools also shows that some students from the closed charter schools are seeking out other charters in the wake of their schools closing. In addition, OUSD lost 474 students overall to charter schools for the 2008-09 school year.

Currently, the District has facility use agreements with eight charter schools (25% of existing charters) that generate roughly \$1 per square foot, per year. Six charter schools using District facilities have five year use agreements, and the District receives \$180 per charter student per year attending these schools. This revenue is contributed to the debt service. There is also one long-term agreement for \$12 dollars per square foot, and another agreement for one year with no debt service charge. Beginning in 2008-09, new use agreements include allowable debt service for all schools in the use rates.

The 28 charter schools that use OUSD as their Special Education Local Plan Area (SELPA) are charged an equivalent per student annual rate for Special Education encroachment costs as the costs carried by the District.

The District has invested in programs to encourage critical exchange of lessons learned within the charter school context to contribute to the over-all improvement of District schools. Finally, OUSD is developing greater integration of the Office of Charter Schools throughout the Education Leadership Team, in order to facilitate coordination and communication that will give future charter petitioners increased access to opportunities to pursue district level initiatives, rather than resorting to charter petitioning as a means to attaining programming goals.

Recommendations

Increase learning from charter schools. Charter schools can provide valuable information about programs and techniques that produce results for students. Learning may occur through site visitations, workshops, working groups, and online best practice exchanges.

Monitor costs per student. Annual reassessment of the cost per student of District-wide expenses should be conducted, so that accurate costs can be included (where legally appropriate) in the charter agreements.

Explore the possibility of selling services to charter schools. The District should continue to evaluate the benefits of improving and offering some services to charter schools for a profit. These services include, but are not limited to, leasing space for operation on a square footage basis, instructional services, nursing services, printing, nutrition services, custodial, maintenance, security, testing administration support, and translation services.

State Budget Crisis

Overview

The economic downturn has been devastating for many state budgets, but extreme in California. Starting in the winter of 2007, the California Department of Finance began indicating a possible shortage in revenue for the state, primarily due to a weakening tax base as a result of decreased personal and corporate income tax revenue and the subprime mortgage crisis. On November 6, 2008, in response to a projected shortfall in state revenue of more than \$28 billion over this year and the coming year, the Governor announced his plans for mid-year budget cuts and a bleak outlook for 2009-10 budgets. The estimated impact to Education, which comprises roughly 40% of the state budget, is a reduction of revenues in excess of \$2.5 billion in the current year, with deeper cuts slated for next year. The Governor's proposal includes new taxes which require a two-thirds approval by the two state legislative bodies. If new taxes are not approved cuts to social services, including education, could be even greater.

For OUSD, the impact of these cuts is dramatic. The District's 2008-09 General Purpose Fund budget was previously reduced by approximately \$23 million in expenses to balance shortfalls from the 2007-08 budget. The District will have to further reduce the current budget by over \$12 million to address the Governor's anticipated mid-year cuts for the 2008-09 school year. This follows almost three years in which the funded cost-of-living adjustment (COLA), the standard by which school districts' receive revenue, has increased by over 8.5%

There have been constant ebbs and flows in funding levels for OUSD over the past two decades, with the most recent wide-scale budget cuts coming in 2002-03. Similar to the current scenario, that year found school districts and other state and local service agencies alike working to pull back spending in order to balance budgets. Analysis shows that these harsh dips in funding create extremes in which one year a public service agency may have a healthy growth in revenue allowing for the funding of core, operating programs while in other years are forced to expend substantial resources and time to cut needed programs and personnel to maintain a sustainable budget. This type of fluctuation in the revenue stream creates a difficult environment to sustain strategic investments.

Analysis

Over the past 17 years there have been various periods in which dramatic changes in funded COLA rates have occurred including the mid-1990's, 2003-04 and potentially the 2008-09 school year. For a school district such as OUSD this means an infusion and reduction of millions of dollars over the course of just two or three years.

School Year	Funded COLA for Average District
1991-92	0.50%
1992-93	1.96%
1993-94	-0.56%
1994-95	0.00%
1995-96	2.73%
1996-97	3.21%
1997-98	2.65%
1998-99	3.95%
1999-00	1.41%

School Year	Funded COLA for Average District
2000-01	3.17%
2001-02	3.87%
2002-03	2.00%
2003-04	-1.20%
2004-05	2.41%
2005-06	4.23%
2006-07	5.92%
2007-08	4.53%
2008-09	-2.40% (proj.)
2008-09	0.68% (adj.)

The short term outlook for education does not hold a lot of promise. Economic indicators such as housing starts across the state and the stock market are showing no sign of recovery that would enable a significant change in the funded COLA rate for the 2010 fiscal year. Most economic forecasts, including those released by both the California Department of Finance and the Legislative Analyst's Office (LAO), show no upswing in the California economy until the 2011 fiscal year.

The economic trends indicate that the District must brace itself for additional cuts to programs for the next two years. Long term management of fluctuations in state funding will require finding ways to generate consistent supplemental revenue and mitigate funding decreases to stabilize the District in times of shortfall.

Recommendations

Establish a "Rainy Day" fund. Explore a partnership with the City of Oakland to create a "rainy day" fund that could be accessed by the District in times of revenue shortfalls caused by the State budget. Withdrawals could be made from the fund as short-term, interest-free loans repaid to the account over time, or as grants, depending on the specific nature of the funding shortfall.

Look for alternative funding sources. Pursue another local parcel tax to support academic programs and employee compensation and explore other possibilities to supplement the District's revenues.

Increase General Fund reserves. The District should strive to increase the reserve for economic uncertainty from 2% to 3% of the General Purpose Fund. The Board should adopt a policy that the District will not allow reserves to fall below 3%.

Align District resources and increase transparency of allocations. Organization-wide alignment of resources will allow for greater impact of key strategies, but also increase transparency and simplify the collective analysis of those impacts. Transparent allocation process and decisions will increase buy-in and accountability.

Develop and update the budget dashboard. This budget dashboard will be a list of key financial indicators. The budget dashboard should be monitored quarterly to show trends, patterns, and key revenue and expenditure items for the District. This information can be used to anticipate opportunities that may strengthen the District's financial position.

Seek funding flexibility. The District should lobby for flexibility in the use of categorical resources. Flexibility in using these funds would allow the District to more effectively align dollars with programming, and increase the magnitude of impact. Instead of ten small funds being put toward ten small programs or objectives, one large pool of funds could be directed towards executing one key strategy.

Budget Development Process

Overview

The timeline below is the District's current annual schedule for budget development.

November

- 1st Interim revisions are implemented by Fiscal Services
- RBB board engagement sessions and analysis

December

- 1st Interim Budget approved by the Board
- Monthly budget monitoring reports produced for Central Office and school sites
- Preliminary enrollment projections developed, appeals process begins
- Draft of Budget Handbook published for review by Cabinet
- Implementation of approved modifications to RBB policy and process
- Cabinet conducts program and fiscal reviews and categorical fund allocations

January

- Governor releases state budget proposal
- Revenue forecast for following fiscal year created by Accounting
- Cabinet reviews state budget proposal and prioritizes Central Office allocations
- RBB allocations for Central Office and school sites determined and loaded
- First Board study session on following year budget held at public meeting
- Final Draft of Budget Handbook published
- Central Office managers engage in program inquiry process; Principals and NExOs in results-based inquiry

February

- Staff models run and completed based on Governor's January budget
- RBB opened for schools and Central Office
- RBB sessions held for school and Central Office to complete by March 1
- RBB/SPSA trainings for schools; NExOs meet with schools to develop prelim SPSA/align budgets

March

- HR Deadline: letters to certificated staff must be out by March 15
- Budget completes matching of orgkeys in RBB
- Budget moves fiscal and personnel data from RBB to IFAS
- 2nd Interim Budget due to Board for approval

April

- Fiscal Services validates budget data in IFAS, begins tech review for SACS
- First Board study session on following year budget held at public meeting

May

- Governor's Revised Budget released and adjustments made as necessary
- Documents prepared for adoption budget submission to ACOE
- Budget prepared for 1st reading and public notice made of upcoming adoption budget
- 3rd Interim Budget due to Board for approval (if necessary)

June

- First reading of 2009-10 adoption budget
- Final budgets delivered for adoption
- Documents finalized for adoption budget submission to ACOE

Recommendations

Publish a budget development calendar. Annual budget development calendars with a timeline of all steps and expectations should be distributed to principals and Central Office managers.

Publish the Adoption Budget. Distribute the Adoption Budget in an accessible format for shared review and analysis.

Multi-Year Financial Projections

NOTE: UPDATED TABLE TO COME

Fiscal Policies and Controls

Results-Based Budgeting

Overview

Results-Based Budgeting (RBB) is OUSD's unique budgeting process, based on a per student formula that accounts for all expenses associated with school operations. Budgets are allocated to and managed by school sites. RBB increases equity, transparency, accountability, and site based decision making in the budgeting process. The theory of action for Results Based Budgeting has been to provide maximum budget flexibility and funding equity for all school sites. The advantages include the ability for individual school sites to customize educational programs and support services to fit the needs of the students, staff and parents.

Equity of resources is achieved as the allocation of funds under RBB is based on actual students (versus staff allocations) and schools have more control over directing their resources. Transparency is increased since budgets developed through RBB reflect the true costs to operate instructional programs for schools and are easier for parents and the community to understand. RBB directly ties budgets to schools' strategic plans, and each School Site Council (SSC) has oversight of categorical funds, which adds accountability for the results attained with school funding. Finally, leaders at the school sites have more control over the budgets, allowing the educators closest to the needs of the students to make decisions about the best use of funds.

The District implemented RBB district-wide in the 2004–05 academic year. American Institutes for Research (AIR) conducted a study of the roll out and results of RBB over the course of 2007-08. The AIR findings, combined with the District's own analysis of RBB, provide a solid basis for targeted process improvements.

Analysis

In order to successfully implement the RBB budgeting process many issues have had to be addressed. The most significant challenges include: involuntary teacher transfers, medical leaves, substitute teachers and veteran teachers. For the first three years of RBB (2005-06, 2006-07, 2007-08) a veteran teacher salary stipend was provided to impacted school sites, this stipend has been discontinued for the 2008-09 fiscal year. The Superintendent's Cabinet is discussing the development of a special reserve to assist school sites that cannot meet their budget obligations because of being impacted by reasons discussed above. Other areas of support for the RBB process include providing school sites with sample staffing models to help site administrators with teacher/student ratios, providing support for small schools, supplementing school budgets using discretionary categorical funding, and providing Measure E funding.

Financial accountability is still the main goal of the RBB budget process. Systems and controls are being refined to make sure that all school site budgets are in alignment with the overall district budget. The Superintendent's Cabinet is discussing ways to provide additional support to school sites that are struggling with the budget process.

The AIR study showed that school communities had a strong preference for RBB over traditional budgeting processes. This was confirmed by the feedback the District received from principals. The strong response from

internal stakeholders is that RBB should continue to be used, but can be further refined to build efficiency and impact. One problematic area is the increase in administrative responsibilities created by RBB. The process requires skills and a time commitment that some principals have not demonstrated. The AIR study found that Operational Support coaching proved to be a successful innovation that provided support for these challenges.

Equity of spending increased for elementary schools under RBB. Elementary schools serving high-poverty student populations reported 5% higher per-pupil spending than other schools before the use of RBB, and 20% higher per-pupil spending following the implementation of RBB. The per-pupil difference is rooted in the use of categorical funds. The trend did not hold true for secondary schools, where the impacts of RBB were not as clear.

Research data and anecdotal evidence also highlight that the Service Economy model, the option held at the schools to buy certain services from the Central Office, has caused confusion and frustration at the school sites. Many administrators remained unclear on which services they could purchase from inside or outside the District, and which were mandated. The District has already moved away from the Service Economy model, instead focusing on maintaining and building an entrenched culture of service throughout OUSD.

Below is a comprehensive table of the AIR study’s findings, as well as the actions the District plans to take to improve the RBB systems.

AIR Finding	Staff Response
Interviewees had a strong preference for RBB over previous budgeting system	Retain and continue to make improvements to the RBB model
Equity of spending has increased for elementary schools, but not as much for secondary schools	More funding is allocated to low income schools, and research is needed to determine why they have not expended more (budget monitoring)
Continue to increase transparency at central office/district levels	Implement easy-to-read Central Office budgets and hold community forums
Service economy model is confusing	Staff has already moved away from this model to a service culture model
Operation Support coaching has been a very positive innovation	Continue to look for ways to offer this coaching in the future
Continue to move to more web based systems	As funds are available, continue to upgrade our web based systems (e.g. onboarding system)
Focus on a culture shift away from pure compliance to innovative planning to address the needs of students	Staff will continue to explore ways to streamline compliance process and provide tools to ensure better resource maximization

Build into the budget development process an annual review of the RBB model	Staff will include this in the budget development calendar
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Recommendations

Enhance the RBB technology tools. Integrate budgeting tools with the District’s finance system (IFAS), provide all information sources and tools online, and reduce the need for duplicate data entry.

Provide differentiated support and training. The needs of each school site are different, as are the skillsets of each principal. Some schools will require greater support to effectively manage RBB, while others may need minimal or no assistance. Develop a comprehensive budget planning guide that includes recommended staffing models, job descriptions, and sample budgets from successful schools. Look for ways to augment principal training and promote the availability of Operational Coaches for administrators who are struggling with budgeting processes.

Build transparency at the Central Office. Leaders throughout the District would benefit from even more transparency in the budgeting process, especially in relation to the RBB formula used for allocations and Central Office budgets. Budget reports can be improved to make them more user- and community-friendly. The Financial Services team is in the process of planning open forums focused on the District’s financial data and decision-making.

Explore ways to streamline compliance processes. Minimizing the time dedicated to compliance issues frees administrators to focus on the needs of the students and achieving results.

Review and refine RBB each year. The District must ensure that enough funding to operate is allocated for schools with a high concentration of veteran teachers, employees on extended leave, and unexpected involuntary transfers. Additionally, an annual review by an advisory committee provides the opportunity for further process improvement.

Fiscal Impact to the District

The ongoing financial impact of RBB is minimal. However, since RBB is a hands-on budgeting approach, there is a significant investment of time from principals, financial associates, and the technology department. Continued process improvements focused on streamlining the work of RBB will result in significant savings of staff time.

Service Culture

Overview

In order to achieve and sustain a world class public school system, OUSD must ensure that its limited resources are used as effectively as possible to support high levels of equitable student achievement. This requires every employee in every function to prioritize service to students and parents, and continually strive to provide efficient, high quality service to all District customers.

The District's service culture works to increase the transparency of the services that are provided by the Service Areas, as well as the costs related to providing those services. It is critical for schools to understand the types of services that the Service Areas are making available and their associated costs. Open information about resource use will help the District to better prioritize its allocation of resources in order to achieve its stated goals.

The foundation of the District's service culture rests in the Service Economy that was introduced with the RBB system. The Service Economy model created confusion over which services could be purchased from the District, and faced other limitations created by collective bargaining agreements and decreasing funding. After gathering feedback on the Service Economy, the District moved away from the model in the fall of 2008. However, the emphasis on providing the highest quality service remains a priority in the Service Areas, and is reflected in OUSD's training programs, performance management initiatives, and philosophy of continuous process improvement.

Analysis

The Educational Leadership Team (ELT) and the Service Leadership Team (SLT) partner to provide service to the District's ultimate customers: the students, families and community. OUSD's current Service Areas include Adult & Career Education, Research & Assessment, Operations Support Services, Technology Services, Instructional Services, Nutrition Services, Procurement and Distribution, Facilities, Special Education, Financial Services, Complementary Learning, the Family & Community Office, Human Resources, Attend and Achieve, Legal, Labor Management & Relations, and the Ombudsperson's Office.

Achieving Service Excellence (ASE) is the District's flagship program for creating a shared set of standards, practices, and language for creating a customer service culture both at schools and in central office departments. ASE is a research-based program that teaches skills and practices that allow individual employees to intentionally and consistently provide impeccable service to our students, parents, community, co-workers and partnering vendors. Reliability, Assurance, Tangibles, Empathy and Responsiveness, known by their RATER acronym, are the basis for service excellence practices at OUSD. As of December 2008, approximately 1,400 school and central office employees have participated in this training, including the State Administrator and other senior leaders.

As of the 2008-09 school year, each of the Service Areas publish scorecard results, which include service standards that are linked to student achievement goals and annual RATER scores. Service Team leaders are expected to review scorecard findings and adjust their Service Improvement Plans, strategic plans which focus on continuous improvement, two times per year. Since 2005-06, Service Areas have seen up to a 36% increase in their RATER scores, evidence of improving customer service. For those Service Areas with more than one year of data, the average increase in RATER has been over 18%. All Service Area teams have been challenged to reach 80% on RATER evaluations by September 2009.

Beginning in the 2007-08 school year, the District began to invest in Home Run projects. A Home Run project is one that addresses the chronic pain points identified by Principals and Network Officers that, if resolved, would significantly contribute to improving the focus in schools on teaching and learning. A Home Run project requires a cross-functional team effort and/or an investment of limited resources to be successful, and requires a systems approach. Examples of past successful Home Run projects are increasing the Substitute Fill Rate and increasing payroll accuracy.

Recommendations

Continue to increase the proportion of funding going to school sites. One of the critical aspects of ensuring the continued success of the service culture is giving increased dollars to school sites to make effective decisions about resource allocations. It is projected that 87% of our General Purpose dollars will be allocated to our schools by 2012.

Increase access to accurate and easy to understand cost information. Continually compare District cost information to benchmark data for the types of services offered. This data will provide information necessary to target areas for process improvement initiatives.

Tie budget development to performance management cycles. Linking the budget process with the performance management cycle will allow the District to ensure that key strategies and Home Run projects receive adequate funding to succeed. Budgets should align to Departmental Priorities. A Performance Management Timeline has been included in Appendix K.

Explore opportunities to generate additional revenue by selling services to outside organizations. As service quality improves, charters, private schools, and other government organizations may be interested in purchasing a menu of services offered by OUSD, including nutrition services, printing services, custodial, instructional services, translation services, student data analysis, operations support coaching, security services, and others.

Work with bargaining units to revise evaluations (per Board Policy) to link performance to student results. Linking employee performance to student results ensures the most effective use of funds spent on salaries and benefits.

School Size Financial Analysis

Overview

The 2005 MYFSP plan directed that OUSD evaluate the financial investment in all schools.

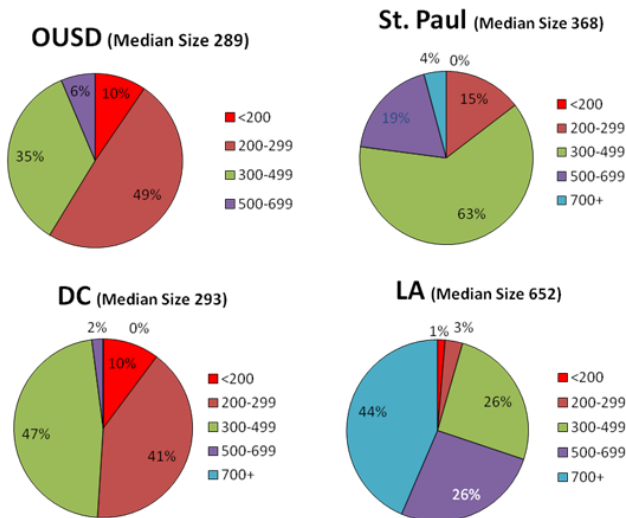
“Schools smaller than this fiscally optimal size limit will be evaluated to determine if they are fiscally viable without additional central resources and/or whether there are conditions specific to the school or community that warrant the extra commitment of resources to keep the school operational.”⁴

Fiscally optimal size limit refers to the minimum enrollment threshold previously established by the District: 360 students for elementary schools, 300 students for middle schools, and 400 students for high schools. This plan seeks to address the fiscal challenges facing schools that fall well below these cutoffs or what are defined as “tiny” schools. It is in no way intended to undermine the strong success of many of the District’s small schools.

In order to evaluate the fiscal viability of the District’s small schools and understand the ongoing commitment of additional resources several analyses were conducted to answer two questions: (1) How do OUSD schools compare in size to other large, urban school districts? and (2) What is the minimum size necessary for a school to “keep the door open” without regard for the quality of the educational program in the school?

Analysis

In the fall of 2007 Education Resource Strategies (ERS) conducted an analysis around the size of OUSD schools. This benchmark analysis compared the size of OUSD schools to: (a) other large urban school districts nationwide and (b) similar school districts within California. Table X shows a comparison of OUSD to three other large urban school districts including: Los Angeles Unified School District (CA), District of Columbia Public Schools (Washington DC), and St. Paul Public Schools (MN). It was observed that compared to these school districts, OUSD has not only a smaller median school size (289) but also the proportion of schools under 300 students (59%) is much greater than the comparison school districts (the next closest is DC Public Schools with 51%).



⁴ Oakland Unified School District. July 22, 2005. Multi-Year Fiscal Recovery Plan. Final Draft. Oakland, CA. page 54.

When comparing OUSD against peer school districts in California, there is a similar result. Table X provides a summary of this comparison. It can be seen that compared to ten other large California school districts that OUSD has the lowest median size (289) with San Francisco Unified (310) and West Contra Costa Unified (431) the next lowest median size. Further, it can be observed that OUSD has the largest proportion of small schools as well with 59% of schools with enrollment below 300 students. The next closest is San Francisco Unified which has 46%.

	MEDIAN SCHOOL SIZE	<200	200-299	300-499	500-699	700+
OAKLAND UNIFIED	289	10%	49%	35%	6%	0%
FONTANA UNIFIED*	749	0%	0%	4%	30%	67%
LODI UNIFIED*	595	11%	11%	14%	50%	14%
MORENO VALLEY UNIFIED*	776	0%	0%	9%	17%	74%
RIALTO UNIFIED*	839	0%	0%	0%	0%	100%
RIVERSIDE UNIFIED*	751	3%	0%	10%	27%	60%
SACRAMENTO CITY UNIFIED*	442	2%	12%	55%	29%	2%
SAN BERNARDINO CITY UNIFIED*	727	5%	0%	18%	20%	57%
SAN FRANCISCO UNIFIED*	310	10%	36%	38%	15%	1%
SAN JOSE UNIFIED*	559	0%	4%	33%	48%	15%
WEST CONTRA COSTA UNIFIED*	431	0%	11%	71%	16%	3%

Research suggests that small high schools of 600 or less can be part of a powerful strategy for improving attendance and graduation rates especially in urban districts.⁵ But, research and the experience of OUSD has shown that small schools also tend to cost more per pupil. In a recently released study by New York University’s Institute for Education and Social Policy looking at the cost of operating small high schools in New York City Public Schools analysis suggested that, “direct costs per pupil generally decline with size for all types of high schools.”⁶ Analysis conducted by OUSD supports this claim and that once school size drops below 300, the per student expense can rise as much as 30% because schools need to cover minimum fixed costs for operating such as facilities, school leadership, and pupil services.

The District conducted an internal analysis to determine the minimal enrollment size necessary for a school to cover its’ core operating expenses. The minimal enrollment identified for a school to “breakeven” financially assumes the minimal levels of labor (e.g., assumed class size ratio) and non-labor resources necessary to operate the school based upon the General Purpose (GP) revenue it generates. A school able to breakeven can cover both variable and fixed costs.⁷ It is critical to recognize that this analysis *does not* presume to reflect the ideal programmatic circumstances for the school. It only represents core services that allow a school to “keep the doors open.” Based on the District’s internal analysis, the *minimum* number of students required for a school to sustain itself on General Purpose (GP) funds is:

- Elementary school – 300 students
- Middle school – 300 students
- High school – 300 students

When schools are below these minimum thresholds, they more frequently are dependent upon categorical and other non-General Purpose funding streams, such as TIIG, to cover their core operating costs. As a result, these schools may be unable to use their supplemental funding (i.e., categorical funds) to provide the additional programs and supports that students deserve. In addition, this dependence on supplemental funds to cover

⁵ Need a citation here. Insert.

⁶ Stiefel, L., Schwartz, A.E., Iatarola, P., and Chellman, C.C. March 2008. *Mission Matters: The Cost of Small High Schools Revisited*. New York University. New York, NY. Working Paper #08-03.

⁷ Fixed costs are defined as those costs that do not directly vary with enrollment. These fixed costs include school administration and all non-labor expenses (utilities, supplies, books, travel, etc.).

core operating costs creates a situation that is potentially unstable given the uncertainties regarding funding levels from one year to the next. Finally, the allocation of over \$5 million of TIIG funds annually to cover the budget shortfall in schools operating below these minimum thresholds uses a large amount of resources that may be invested in other ways to maximize student achievement.

The merger or closure of a school can generate potential annual net savings for the District due to a reduction in fixed costs. It is assumed that no savings can be claimed for teacher compensation because those full time employees will likely shift to other schools. The table below provides an analysis of what the potential annual net savings might be in the event of a school merger or closure.

	Elementary	Middle	High
Labor costs (fixed)	\$225,000	\$390,000	\$305,000
Custodial Services	\$24,000	\$24,000	\$24,000
Utilities	\$38,000	\$46,000	\$45,000
Supplies, materials, etc.	\$33,000	\$40,000	\$30,000
Total	\$320,000	\$500,000	\$405,000

There are a number of OUSD schools that fall below this minimum threshold. These schools would be considered not just small, but tiny.

Based on the above analysis, this report recommends a merger or closure of several schools. In order to identify the range of schools that should be merged or closed, two primary criteria were analyzed: i) current enrollment for the District schools, and ii) continued declining enrollment over the next five years which is projected to be between 1.4% and 6.8% annually. This number was derived from the assumption that OUSD must be able to ensure its current and future financial sustainability. Merger or closure of schools will enable OUSD to provide the level of quality education students and families deserve. School closures are always extremely difficult. However, the reality is that with continued declining enrollment, the OUSD community has been facing real and possible school closures for each of the past five years. Implementing a Right Size plan in a cohesive and strategic manner will enable a sense of stability and focus on academic achievement, which is not possible when school closures are on the horizon every year.

In fall of 2008 the District conducted several community forums to solicit input for the development of a detailed right size plan be created describing how the consideration for the merger or closure of these schools will occur. The District proposed three areas to include:

1. **Process** for considering how to approach the merger or closure of schools
2. **Criteria** that clearly define the indicators to be used in the identification of schools for merger or closure
3. **Timeline** that allows opportunity for community input but also establishing clear expectations for a final decision.

The community feedback was a strong resistance to closing any small schools; and a desire to see academic performance weighted more heavily than size or fiscal viability. The District and the Board of Education agreed to utilize the current school portfolio management process to identify schools for closure/merger.

Right Sizing Plan Process: External Best Practices and OUSD Context

The Pittsburgh Unified School District has engaged in a successful Right Sizing plan that can be used as a model for OUSD. The first key lesson learned was that it is critical to implement a process which is transparent and which values community input. It is very important to have a clear timeline and process for how decisions will be made.

Another key lesson is the importance of using a diverse range of criteria to identify schools. Pittsburgh demonstrated the importance of looking at how schools are IMPROVING the academic performance of individual students. Pittsburgh was also committed to examining equity related criteria to ensure that a cross-section of schools across the city were identified for possible closure or merger. This issue of equity is critically important so as to ensure that the schools identified through this process are socio-economically and geographically diverse.

Part of the success experienced in Pittsburgh was attributed to the fact that their Board of Education evaluated the entire plan cohesively. As a board, they committed to voting on the entire plan as it was brought to them, rather than evaluating each individual school separately. This ensured that political decisions were not made about individual schools identified but rather about what made sense for the city as a whole.

A final lesson is that it is critical to make decisions in a timely fashion. As evidenced by recent right sizing plans in other districts that have not gone as well, it is critical that decisions get made by December. This is the only way to ensure that any necessary teacher consolidations can be done in a respectful manner and that budgeting for the following school year is accurate.

Over the past five years, OUSD has experienced a number of school closures. One of the key lessons learned is how to better structure community engagement regarding possible closures. In past years, school closure decisions were made in Oakland with little or no community engagement. Oakland has since developed a much improved process for engaging the community in a dialogue regarding possible school closures to ensure that these voices are heard before a decision is made. Another lesson learned is the reality of all the unintended consequences associated with school closures. For example, teacher consolidations from school closures are extremely challenging – both for the teachers impacted, and also for the other schools which are not closing across the District. Therefore the timeline must depend on all these decisions being made by January. Historically, school closures in Oakland have disproportionately impacted predominantly African American neighborhoods. It is for this reason that equity is emphasized as criteria which must be used in the identification of schools for closure or merger.

Over the past seven years, OUSD has also opened a significant number of new schools. The District used small schools and learning communities as a central reform strategy for creating the right learning conditions to accelerate achievement for all students. This is a strategy that has been invested in significantly over the past 5 years as the District still believes in the value of small schools. A right size plan seeks to balance the District's continued investment in small schools with the financial constraints of TINY schools.

Right Size Plan: Proposed Criteria

The District must propose a comprehensive range of criteria other than just the enrollment of a school. When one school is closed, the students from that school will then increase the enrollment at other schools across the District. It is therefore very important that a comprehensive array of criteria are used to determine which

schools will be closed and which schools will receive increased enrollment. Through this entire process, the District’s primary goal is to provide the highest quality education possible for all Oakland Students.

Proposed criteria for the right-sizing analysis contained four areas which included: (1) enrollment, (2) residential change, (3) equity, and (4) academic/OSD tiering.

- **Enrollment** – The first and most heavily weighted area was the current enrollment at each school. The District also took into account the size of facilities since all facilities cannot accommodate the minimum 300-student threshold.
- **Residential Change** – The second area was residential change within a particular attendance area. Current OSD board policy values access to neighborhood schools. So for example, if a certain school only has 250 students enrolled but it is known that 350 students actually live in the attendance area; this must be taken into account. The District believes that all families should have access to their neighborhood school. So even though families in this example are not currently choosing their neighborhood schools, they should have the option to do so. Finally, it is important that the District evaluate enrollment trends, as a district, faced an enrollment decline over the last five years and it is expected to further decline during the next five years. However this decline is projected to impact certain neighborhoods more than other neighborhoods.
- **Equity** – **The third area** is a set of criteria based on equity. The District has historically closed schools primarily in West and East Oakland. Although the realities of declining enrollment continue in these neighborhoods, it is important to factor in these historic closures. Another factor to include is the number of Free and Reduced lunch students in each neighborhood.
- **Academic (OSD Tiering)** - The final area proposed was academic. In addition to looking at enrollment, it is critically important that we take into account which schools are providing a quality option for Oakland students and families and that these schools continue to be supported. For the academic criteria, the tiered accountability and support criteria. Will be used which includes absolute performance, student level growth, and closing the achievement gap. These are the same criteria that are used to determine the differentiated supports and interventions that district schools currently receive. In addition to looking at the absolute performance of a school, it is very important to look at how a school is improving the performance of individual students (regardless of how these students were performing when they entered the school) and how the school is closing the achievement gap.

ENROLLMENT	
1. Current Enrollment	Current enrollment directly impacts the current sustainability of each school The facility size will be taken into account: some schools are limited in how large they can grow because they are located in small buildings
RESIDENTIAL CHANGE	
2. Current Residents	Current OSD Board Policy values access to neighborhood schools. The number of residents in each attendance area therefore needs to be factored into the criteria
3. Future Residents	Although OSD is losing enrollment across the District, certain neighborhoods are projected to lose more residents than other neighborhoods over the next 5 years.
EQUITY	
4. Proximity to Historical Closure	Certain neighborhoods have been disproportionately impacted by historical school closures; it is important that this is factored into the criteria
5. Free / Reduced	Certain schools have more students who qualify for Free/Reduced Lunch than other schools;

Lunch %	it is important that this is factored into the criteria so that the plan impacts a diverse range of schools across the city
ACADEMIC (OUSD TIERING)	
6. Absolute Performance	All schools should be meeting NCLB Adequate Yearly Progress targets
7. Student level Growth	All schools should be improving the performance of each student, regardless of how the student performed before they entered the school
8. Closing Achievement Gap	All schools should be closing the achievement gap between the lowest performing subgroup and the overall school performance

Right Size Plan: Proposed Timeline

Several community forums were conducted in the fall of 2008 to solicit input for developing a right size plan. Criteria was proposed, but the community rejected size as the primary criteria and promoted academics. As a result of community input, the School Portfolio Management process, which prioritizes academics, is being used to identify an initial list of schools to consider for focused intervention, and perhaps eventual closure/merger in the 2009-10 school year if performance does not improve. On November 25th, staff presented an initial list of schools, based on the School Portfolio Management process. Based on community feedback, the School Portfolio Management process and resulting recommendations will be used to determine next steps for 2009-10 consolidations and closures.

Date	Activity
May 22, 2008	Draft MYFSP: Presentation of Proposed Timeline and Criteria
June 11, 2008	Final MYFSP: Presentation of Proposed Timeline and Criteria
August 27, 2008	Presentation of detailed community engagement process
September/October 2008	Interim Superintendent and Strategy Team led community engagement regarding proposed criteria for Right Sizing Plan
Nov 25, 2008	Presentation of Final Right Size Plan using School Portfolio Management recommendations (based on community feedback)
Dec 17, 2008	Decision to use School Portfolio Management recommendations for 2009-10 is finalized
Jan. – June 2009	Preparation for implementation recommendations: HR, Facilities, etc.
July 2009	Right Size plan implemented

Debt Structure and Control

Overview

The District has primarily three types of debt. Below is a high-level synopsis of the types of debt the OUSD carries as of November 2008, and the remaining obligations.

- General Obligation (GO) bonds \$563.9 million
- Lease Revenue bonds (COP) \$ 8.1 million
- Emergency State Loan (State Drawdown)
 - 2003 State Drawdown \$ 56.6 million
 - 2006 State Drawdown \$ 32 million

There is one other long-term obligation for the District that is not discussed here. An additional loan for health benefits for former retirees or Other Post Employment Benefits (OPEB) carries an obligation of less than \$300,000 annually, and will be paid off when the remaining participants complete their eligibility requirements.

Analysis

The three types of debt noted above are paid as follows:

- General Obligation bonds are voter-approved and repaid by taxpayers. Currently, the Oakland taxpayer is paying \$80.10 per \$100,000 of assessed property value each year for bond repayment on this \$563.9 million in outstanding debt. The District still has \$305 million in authorized bonds that have not been issued. The table below provides a summary of the GO bonds and the outstanding principal, as of the 2007-08 fiscal year. Appendix I provides additional detail on the outstanding principal for the GO bonds.

	MEASURE C – Original Par	MEASURE A – Original Par	MEASURE B – Original Par	Total Principal Outstanding
Series F (4/1/2000)				\$3,750,000
Series 2001 (6/1/2001)				\$400,938
Series 2001 (6/1/2001)				\$649,602
Series 2002 (8/1/2002)				\$97,030,000
Series 2002 (8/31/2005)				\$140,200,000
Bonds Issued (\$)	\$205,691,738	\$302,999,893	\$130,000,000	
Bonds to be Issued (\$)	\$0	\$0	\$305,000,000	
2007 Refunding				\$199,240,000
TOTAL OUTSTANDING				\$563,990,000

- OUSD has issued three Certificates of Participation (COP). Proceeds from the COP were used to finance building and facilities improvements. The District used Redevelopment Funds to pay off over \$9 million in COP payments this year, in an effort to avoid paying high interest rates due to the unstable credit market. The remaining \$8.1 million in debt will be paid by the Chabot Science Observatory. In 1999, the District entered into an agreement with Chabot Science Observatory in which the District obtained credit on behalf of Chabot. Chabot retains responsibility for paying off the debt. The table below provides a summary of the outstanding COP debt.

Series	Issue Date	Final Maturity	Interest Rate	Outstanding Principal	Purpose
Series G – Chabot Observatory	6/1999	8/2024	Assume 4.50% going forward; 2008 Avg: 3.8%	\$8,100,000	Loan to Chabot Observatory during construction
TOTAL				\$8,100,000	

- Following SB39 and the District going into state receivership in 2003, the State extended OUSD a loan in the amount of \$100 million. The first drawdown, taken in 2003, was in the amount of \$65 million. Annual payments on this debt have been made from the General Purpose fund. The current outstanding debt to the state is \$59.6 million. The second drawdown, taken in 2006, was in the amount of \$35 million. Payments on this portion of the State Drawdown are made from the cash on-hand generated from the loan. The outstanding debt to the state is \$32 million. The table below provides a summary of these two state drawdown loans.

Series	Issue Date	Final Maturity	Interest Rate	Outstanding	Annual Payment
2003 State Drawdown*	6/1/2003	6/1/2023	1.78%	\$56,565,000** (I-Bank lease revenue bond)	\$3,890,534
2006 State Drawdown	7/14/2006	6/1/2026	1.78%	\$32,000,000	\$2,094,903
TOTAL				\$88,565,000	\$5,985,437

* I-Bank Lease-Revenue Refunding Bonds, Series 2008. I-Bank stands for California Infrastructure & Economic Development Bank

** - Equal to \$53,765,439 of original state loan drawdown

Recommendations

Thoroughly evaluate future GO bonds. Any future GO bonds should be preceded by a clear statement of need in a Facilities master plan. Contents of a plan should include a clear assessment of school facilities needs that align with a vision for a set of facilities that enhance and enrich student learning. Both short and long-term costs associated with modernization and construction projects must be understood to the best of the District’s ability.

Limit borrowing to fixed interest loans. The District should exhaust all other options before considering taking on additional debt with variable interest rates. While it may become necessary, current market conditions (and projections for the next three to five years) indicate that it is highly inadvisable to take on loans with variable interest rates.

Resolving Audit Findings

Overview

Since State Administration began in OUSD in 2003, the resolution of audit findings has been a major focus. All California school districts are required by law to have an annual, independent audit performed. Between 1996-97 and 2001-02, KPMG performed these annual audits for the District. SB 39 authorized the California State Controller's Office (SCO) to perform OUSD's annual audits starting in 2002-03. That report, presented to the State Administrator in June 2004, produced 120 audit findings on an array of activities including internal controls, fixed assets, inadequate documentation, non-compliant use of funds, attendance apportionment reporting errors, bond proceed monitoring concerns, and a lack of bidding requirements.

Since the release of the 2002-03 audit, the District has worked diligently to resolve identified audit findings, while simultaneously developing systems and procedures that take corrective action to ensure the organization is operating within the legal limits established by the Education Code. Resolution to audit findings has been accomplished primarily by partnering with the SCO to provide the necessary detailed supporting documentation.

In October of 2007 a process was established by District staff to focus on immediately resolving all audit findings. A partnership including the California Department of Education and audit resolution specialists Olsen Hagle & Fishburn LLP was established to resolve all audit findings as soon as possible. The strategy included the analysis of all individual audit findings during the 2004-05 & 2005-06 audits. Preliminary results indicate that all audit findings will be resolved with minimum liability to the District. Professional experts project the total liability for the two year period at less than \$1.5 million. The 2006-07 audit has not yet been completed so no preliminary estimates are available, however, the initial results are promising.

Analysis

The resolution of audit findings from prior fiscal years has had a positive effect on the organization's financial position. For example, the 2002-03 audit identified over \$33 million in questioned costs. However, the District was able to resolve 97% of the audit findings resulting in a final audit liability of just \$911,846. Similarly 88% of the findings were resolved from the 2003-04 audit, resulting in a final audit liability of \$887,029.

Audit Year	Questioned Costs	Resolved Costs	Audit Liability	Comments
2002-03	\$33,520,003	\$32,608,147	\$ 911,846	\$911,846 liability has been paid from State Drawdown
2003-04	\$7,457,075	\$6,570,046	\$ 887,029	\$887,029 liability has been paid from State Drawdown
2004-05	\$8,768,884	\$7,981,716	\$767,953	Resolution in progress; partial resolution of remaining liabilities expected
2005-06	\$24,982,143	\$0	TBD	Resolution in progress; positive resolution of audit liabilities expected
2006-07	In progress	In progress	In progress	State & Federal compliance audit started July 2008

* - \$300,000 of liability payment authorized to implement FCMAT recommendations for financial management

The 2005-06 audit report was completed June 2008. The SCO began the 2006-07 audit in July 2008. Given the importance of resolving audit findings and efficiently delivering prior year audits, the District has sought more proactive strategies to accelerate the process and allow the organization to begin focusing more on current and future year financial sustainability. The District has contracted with an independent CPA firm to work with

accounting staff on resolving the District's old (beginning in 2002-03) cash and payroll clearing accounts, so that a timely opinion of the organization's financial position can be delivered by SCO.

An internal auditor was added to District staff in the fall of 2008. The internal auditor has prioritized a District-wide review of internal controls and will execute corrective actions where deficiencies are discovered. More rigorous controls may help the District to avoid future audit findings.

Recommendation

Expedite the process. The ability for the OUSD Financial Services team to focus on ensuring the appropriate and effective use of funds in current and future years while addressing audit findings from prior years is a difficult challenge. The benefits resulting from moving the audit finding liabilities off the District's books, including increased credit ratings, warrant identifying short-term resources necessary to expedite the process.

Avoid audit findings in the future. As the District catches up with the audit process, attention must shift from resolving past audit findings to improving current practices to prevent new findings. Audit reports over the past five years have listed many of the same findings year after year. District leaders should identify and target these areas to correct problems and avoid the long, costly process of resolving repeated audit findings in years to come.

Increase preparation time for each audit. The internal auditor can drive efforts to coach staff about how to best prepare to work with auditors. Internal audits can be used as a rehearsal for the annual SCO audits, with a goal of reducing the number of reportable audit findings.

Credit Rating Restoration

Overview

The existence of a high credit rating for a school district is important because it allows the school district to use General Obligation bonds, Certificate of Participation, or other loans at lower interest rates. Since the school district is responsible for the principal (original loan amount) plus interest that accrues over the life of the loan, it is in the best interest of the school district to get the lowest possible interest rate. Among large organizations, a credit rating is a significant factor determining the interest rate that can be offered by investors and lenders. Further, a strong credit rating is also highly correlated with a school district's healthy financial condition.

Since 2005, OUSD has taken significant steps toward improving its financial condition. Analysis by two independent, third-party organizations has confirmed this progress. In June 2007, rating reviews conducted by Standard & Poor's (S&P) and Moody's Investors Service indicated notable improvement in a variety of indicators of the District's financial health, including audit finding resolution, strengthened internal financial controls, and effective expense management. As a result of these observations and other factors, OUSD was upgraded by both credit rating agencies. In addition, the financial outlook for OUSD was revised up to from "Negative" to "Stable."⁸

In October of 2008, the District negotiated an audit review procedure with the State Controller's Office to bypass the 2006-07 financial audit and proceed directly to auditing the 2007-08 books. When this occurs, the District audit cycle will be up to date for the first time since the 2001-02 fiscal year. In addition, this audit could be the first audit report without a financial disclaimer since the 2001-02 fiscal year. The District has also just finished its annual review by the Financial Crisis Management Assistant Team (FCMAT) and is anticipating its second consecutive positive rating year. OUSD is on the verge of meeting the standards for financial control to be returned to the local governing board. These two developments could provide the basis for a higher credit score.

Analysis

The reviews conducted by the credit rating agencies cited several notable improvements in the District that resulted in the rating upgrade. Both agencies stated, "Rating revision also reflects the full incorporation of improved financial controls, which were part of the District's Multi-Year Fiscal Recovery Plan (MYFRP) adopted in July 2005." It was also noted that, "Progress in being able to reduce operating expenditures to align with annual revenues has demonstrated the ability for the District to better manage the continued declining enrollment. Helping to create better internal fiscal control have been technology upgrades, as well as improved Central Office processes."

The credit reviews called attention to the strong tax base in both the Bay Area and the City of Oakland, supported by a stable economy despite current national economic trends. Assessed value was noted as being particularly strong, growing by 11.5% in the 2007 fiscal year. Reflecting on the outlook of the organization, both agencies identified the continuing need for OUSD to constrain expenditure growth if financial resilience and improved credit ratings are to be achieved.

⁸ Credit rating agencies indicate the fiscal outlook of an organization as Negative, Stable, or Positive. Generally, the increase in bond rating may result in a revision to the fiscal outlook as well.

Based on the District's revised Multi-Year Fiscal Sustainability plan and new audit strategy it is anticipated that the District's standing with the credit rating agencies will be even stronger, despite the weak local and national economic condition.

Recommendations

Expedite resolution of audit findings. One of the primary factors that rating agencies examine is potential financial liabilities of an organization. Until OUSD has completed and updated its audits, it will be difficult to justify a rating increase, since audit liabilities currently exceed unrestricted General Fund reserves. The District has resolved all audit findings for the 2002-03 and 2003-04 fiscal years. As of November 2008, the 2004-05 fiscal year audit findings are 95% complete. The District has completed its strategic plans to address the 2005-06 audit findings. The 2006-07 compliance audit has not yet been completed by the State Controller's Office. The District feels that it is in a good position to have all outstanding audit findings resolved in the next 12 months

Follow through on MYFSP recommendations for 2009 to 2011. Implement MYSFP recommendations that support and protect the long-term financial sustainability of the District. The existence and prioritization of this plan demonstrates the emphasis that District leaders are placing on OUSD's healthy financial standing, and a continued organizational focus on financial health.

Thoroughly evaluate programs and reform efforts. Make careful consideration of current and proposed instructional and programmatic reforms, particularly their impact on the District's long-term finances. In addition, a more robust process should be established to create a clear understanding of the costs and benefits associated with any decision.

Build General Purpose Fund reserves. The District should strive to build the unrestricted General Fund reserve to at least 7.5% of anticipated current year expenditures. This target would meet the minimum requirements set out by State law to have a 2% reserve for economic uncertainty, and establish enough reserves to offset the majority of significant, outstanding financial liabilities of the District (primarily audit findings). Reserves will be at approximately 3% by the close of this fiscal year, which is a decrease of approximately 1% than previously estimated due to the anticipated state deficit COLA.

Fiscal Impact to the District

If given a higher credit rating, there is strong potential that the District would pay less in interest costs to take out lease revenue bonds, or a General Obligation bond—a savings that is passed directly to tax payers. The move from a BBB+ rating to an A-, would signify to the market that the District is a better candidate for debt. The District anticipates meeting with credit rating agencies in February of 2009, because of the need to sell GO bonds to finance new projects.

Cash flow management

Overview

Normally, low cash periods can be managed through proactive cash-flow analysis and utilizing alternative cash resources. School districts have traditionally managed low or negative cash periods through short-term financing with Tax Revenue Anticipation Notes (TRAN), borrowing from the County Office of Education, or borrowing from other funds within the District.

On November 6, 2008 Governor Schwarzenegger announced that actual state revenues for the current year were at least \$11 billion less than estimated when the state budget was passed on September 23, 2008. One of the continuing strategies that the state will use to manage the shortfall is delayed state revenue allocations to school districts. Because OUSD is still in state receivership, it may be necessary to borrow from other District funds to cover temporary cash shortfalls created by the delayed state revenue allocations. Education Code Section 42603 allows a district to temporarily borrow from other funds to meet General Purpose Fund obligations.

Analysis

The table below provides a month by month analysis of the District's cash flow, as of the closing of the District's 2007-08 books on September 15, 2008.

2007-08 Cash Flow Analysis

Actual Cash Balance	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Beginning Cash	\$54,050,827	\$31,231,404	\$31,732,961	\$21,886,559	\$62,797,907	\$32,134,296
Total Receipts	\$154,217	\$12,002,807	\$19,636,455	\$77,684,756	\$5,055,811	\$61,845,753
Total Disbursements	(\$10,614,250)	(\$13,367,625)	(\$34,689,625)	(\$39,044,886)	(\$36,940,530)	(\$36,784,362)
A/R & A/P Net	(\$12,359,390)	\$1,866,375	\$5,206,768	\$2,271,478	(\$1,221,707)	\$1,044,911
Ending Cash	\$31,231,404	\$31,732,961	\$21,886,559	\$62,797,907	\$32,134,295	\$58,240,597

Actual Cash Balance	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Beginning Cash	\$58,240,597	\$70,015,577	\$51,778,089	\$62,178,005	\$78,388,371	\$61,888,515
Total Receipts	\$50,283,596	\$19,389,129	\$52,343,788	\$56,491,438	\$26,622,376	\$58,016,894
Total Disbursements	(\$37,744,123)	(\$41,794,622)	(\$39,458,279)	(\$40,128,004)	(\$43,426,120)	(\$79,826,058)
A/R & A/P Net	(\$764,493)	\$4,168,005	(\$2,485,594)	(\$153,068)	\$303,888	\$1,686,723
Ending Cash	\$70,015,577	\$51,778,089	\$62,178,005	\$78,388,371	\$61,888,515	\$41,766,074

Recommendations

Closely monitor cash balances. The District should be vigilant in performing routine cash flow analysis. If a temporary cash loan is becomes necessary, the viable options to access funds can be evaluated as quickly as possible.

Consider using a TRAN or other funding source in coming years. The District will not be eligible to utilize a TRAN until the state releases control of District finances to the Board and transitions the District from state receivership. If a TRAN is used to manage cash flow, arbitrage could be realized to create additional funds for the General Purpose Fund. An A rating from Standard and Poor's must be attained in order gain the favorable interest rates that would make arbitrage possible. The District has targeted the 2009-10 fiscal year to return to local control and to improve its credit ratings, so utilizing a TRAN, or similar funding source, to help manage cash flow may become possible at that time.

Revenue Enhancements

Asset Management

Overview

Selling or leasing District property may provide an opportunity to raise revenue. The specific regulatory requirements are as follows:

- The sale (or lease) of District owned Real Property is governed primarily by Ed. Code Section 17455 *et seq.*, Government Code Section 54220;
- The governing board of any school district may sell any real property not needed by the district for school classroom buildings (surplus property); and
- The funds derived from the sale of surplus property are to be used for capital outlay or for costs of maintenance that the BOE determines will not recur within a five-year period.

Proceeds from the sale may be deposited in the General Purpose fund if a district has no anticipated need for additional sites or building construction for the ten-year period following the sale, and a district has no major deferred maintenance requirements.

Proceeds from the sale of school district property are to be used for one-time expenditures, and may not be used for ongoing expenditures such as salaries and/or other general operating expenses.

Proceeds from the sale of property may also be deposited into a special reserve fund for capital outlay if a district has no anticipated need for building construction or major deferred maintenance projects for a ten-year period following the sale. Proceeds deposited in the special reserve fund cannot be used for general operating expenses.

The board shall reduce any apportionment of hardship assistance awarded to a school district by an amount equal to the amount of any proceeds from the sale of surplus property used for a one-time expenditure of the school district for five years following the expenditure.

As of Fall 2008, OUSD intends to hire a consultant or firm to assist with the development of an Asset Management Plan and started the process by requesting proposals. The Asset Management Plan will include a comprehensive inventory (including estimated market value and a listing of each site's current uses) of all District-owned real property, development of a "Space Utilization" formula for each site, and coordination with District staff using enrollment projections to determine unused and underutilized facilities. Finally, the Asset Management Plan will provide analysis of findings with recommendations to the District regarding the best use scenarios that ensure the programmatic and financial success of individual schools, resolve short- and long-term enrollment growth impacts, provide safe and adequate facilities for central administration, and provide new and on-going revenues for the District in forms that are consistent with the operational expectations of the Board of Education. Facilities Services will award the project to a contractor or firm on December 18, 2008. The Asset Management Plan is expected to be delivered to the District no later than April of 2009.

Analysis

As a part of the 2005 MYFSP, the District explored selling the 1025 2nd Avenue Central Office building to assist in paying off the State Drawdown loans. The District chose not to sell the building at that time, but that decision may be reconsidered in the future.

Any decision to sell surplus District property must be vetted through a 7/11 committee process and requires that the property be offered to certain public agencies before sale to the general public. A checklist of steps and requirements for the sale of surplus property is found in Appendix J.

Recommendation

Regularly review opportunities. On an on-going basis District leaders should work with a team of experts to investigate the options for and impact of selling or leasing properties that are no longer in use. Proceeds from the sale of property are restricted by Education Code, however, in the past the State Legislature has considered special legislation to allow the use of proceeds from the sale or long-term lease of property for certain special local circumstances. Leasing may be preferred, as the lease income will provide an ongoing source of revenue that may be used to enhance institutional programs.

Increasing Attendance and Enrollment

Overview

Ensuring that each student is enrolled and attending school on a daily basis is critical. The presence of a student in the classroom has various benefits. First, it provides a consistent learning opportunity for the student. Second, it increases the overall revenue available to the school to serve that child. Third, a student in a classroom being supervised by a responsible adult is in a safe environment and they are being exposed to opportunities for learning.

The state measures how often students attend school through a measure called Average Daily Attendance or ADA. This metric is the basis on which all California school districts are funded on most major state funding streams, including General Purpose (GP) dollars. In OUSD, the attendance of students at school has historically been a struggle. In early 2000, the ratio of ADA to enrollment was 93.6%. Despite a bump in 2001-02, OUSD was unable to get ADA above 94% until the 2006-07 school year. The table below provides year to year data on enrollment and ADA percentage trends. In the 2007-08 school year this ratio was 94.9%. Compared to the state average, OUSD ranks below the state average of 96%.

School Year	Enrollment	ADA %
2000-01	54,024	93.6%
2001-02	52,467	95.3%
2002-03	50,424	92.8%
2003-04	47,650	93.2%

School Year	Enrollment	ADA %
2004-05	45,089	93.4%
2005-06	41,369	93.5%
2006-07	39,964	93.01%
2007-08	38,852	93.79%

Since the publication of the 2005 MYFRP, OUSD has introduced various strategies to increase ADA within the schools including the introduction of services to schools such as attendance compliance officers. Due to limited funds, only one attendance compliance officer currently funded through Central Office dollars, and very few funded at the school sites. In addition, the school district opened a Truancy and Prevention Center to help recover students and bring them back into the school system. Data from the Center over the past three years has been inconclusive as to its impact on attendance.

As a result of the RBB system principals have paid closer attention to the students that are coming to school every day. RBB makes the calculation of dollars going to schools transparent and, as a result, each principal is able to understand how their school's revenue is affected by the percent of students that are attending their school each day.

Analysis

Financially, the absence of students in OUSD schools means fewer dollars that can be made available to fund school-based programs and activities to benefit Oakland's students. The table below shows the ADA percentage by school level during the 2007-08 school year.

School Level	ADA Percentage (%)		
	2005-06	2006-07	2007-08
Elementary	95.3%	95.3%	95.2%
Middle	94.0%	94.6%	94.9%
High	92.3%	92.3%	94.3%

As the table describes, the frequency of attendance by OUSD students falls from elementary to high school. If the District was able to increase its ADA percentage by just 1%, to 95.5% from 94.5%, this would translate into an additional \$2.2 million to help fund programs and other activities in the school district. Related to individual student attendance, if a student in OUSD was to attend school for one day more than they did last year, it would mean an increase in revenue of \$42.89 per student.

To further illustrate the potential increased revenue available to OUSD, consider the example of a middle school with an enrollment of 350 students. Currently the ADA percentage for this school is 93%. If the school was able to raise its ADA percentage by just one percentage point to 94% it would generate an additional \$14,175 for the school. That is enough unrestricted revenue to fund a portion of a content coach, additional prep time for teachers, or other critical activities in the school.

Another inhibiting factor that prevents higher attendance and enrollment rates in the District are drop-out rates at the high school level. Data reported for the 2005-06 fiscal year indicated that as many as 48% of Oakland high school students dropped out of school. This conservative estimate translates to a loss of over \$2 million in General Purpose funding. An additional loss of categorical funds may also be assumed. The drop-out rate in OUSD is not just a fiscal concern due to the loss of revenue, but a social and academic concern as well.

Recommendations

Build capacity among attendance officers/clerks. The presence of Attendance Compliance Officers and Attendance Clerks are crucial to the proper collection of attendance data that contribute to the school district's ADA. Site administrators should be encouraged to fund attendance positions through RBB. Offering training and professional development sessions that increase staff's ability to properly record attendance and input it into the District's systems can increase the quality of recording this information. For example, the District recently launched an initiative, Attendance Academies, to assist.

Enforce the use of technology tools and conduct quality checks. Technology is crucial to the efficient and effective collection of this data. OUSD's current system, AERIES, has assisted in the effort to increase ADA yet many schools are not using computer systems to participate in this upgraded feature for the school district. Additionally, periodic checks should be done on the quality of the data and indicators established to identify inconsistencies in the data.

Evaluate the Attend & Achieve Campaign. The Truancy and Prevention Center was established to address the large truancy issue that OUSD has experienced over the past decade, but results of the effort are inconclusive. This strategy should be evaluated against other possible investments.

Invest in dropout recovery. The District should investigate the current structure, gaps, and resources that are available to be committed to dropout recovery. Research on external model programs and successful strategies should be incorporated into any programs proposed to the District.

Financial Impact

An increase in ADA by 1% generates an additional \$2.2 million in General Purpose funds.

Class Size Reduction

Overview

Class Size Reduction (CSR) is an instructional improvement strategy that is used statewide. CSR, like any instructional improvement program, must be considered against other potential strategies and programs used to improve student achievement, as well as the financial cost of creating smaller classes.

State CSR funding is made available to all school districts that qualify for the program. OUSD continues to participate in the K-3 program and the Morgan Hart program for ninth graders. Program guidelines provide for two options that any school district may use to implement CSR. Option 1 is full implementation where each self-contained classroom has one teacher for every twenty students. This option reimburses school districts at the full, per qualifying student rate (in 2008-09 it was \$1,071).

Option 2 is considered partial implementation and allows a larger number of students in a self-contained classroom with the mandate that there be another certificated teacher in the class. Further, in order to qualify for these CSR dollars the second certificated staff member must be teaching either English and/or math for at least one-half of the instructional minutes in the day. The District has not taken advantage of Option 2 because it creates extremely large class sizes (approximately forty students) that must be managed by one teacher for the remaining half of each school day.

Analysis

CSR funding does not cover the full cost for implementation in the District, and the cost of implementing CSR encroaches upon other unrestricted monies. The tables below provide a snapshot of this under-funding based on basic operating expenses at the classroom level.

Cost of classrooms without CSR

Table 1.

2 1st-3rd classrooms, 30 students per classroom⁹	
Total students	60
School site GP revenue per student	\$2,600
Total teachers	2
Average Teacher Compensation	\$78,000
GP revenue	\$156,000
CSR revenue (\$1071 per qualified student)	\$0
<i>Subtotal</i>	<i>\$156,000</i>
Classroom expense (2 x \$78K)	\$156,000
Expense per student	\$2,600
Balance	\$0

Table 2.

2 Kindergarten classrooms, 27 students per classroom¹⁰	
Total students	54
School site GP revenue per student	\$2,600
Total teachers	2
Average Teacher Compensation	\$78,000
GP revenue	\$140,400
CSR revenue (\$1071 per qualified student)	\$0
<i>Subtotal</i>	<i>\$140,400</i>
Classroom expense (2 x \$78K)	\$156,000
Expense per student	\$2,889
Balance	(\$15,600)

⁹ Thirty students per classroom is the maximum number of students allowed in first to third grade classes as negotiated by the Oakland Education Association (OEA) and the District.

¹⁰ Twenty-seven students per classroom is the maximum number of students allowed in a kindergarten class as negotiated by the Oakland Education Association (OEA) and the District.

Cost of classrooms with CSR

Table 3.

3 1st-3rd classrooms, 20 students per classroom	
Total students	60
School site GP revenue per student	\$2,600
Total teachers	3
Average Teacher Compensation	\$78,000
GP revenue	\$156,000
CSR revenue (\$1071 per qualified student)	\$64,260
<i>Subtotal</i>	<i>\$220,260</i>
Classroom expense (3 x \$78K)	\$234,000
Expense per student	\$3,900
Balance	(\$13,740)
Encroachment as percent	5.9%

Table 4.

3 Kindergarten classrooms, 20 students per classroom	
Total students	60
School site GP revenue per student	\$2,600
Total teachers	3
Average Teacher Compensation	\$78,000
GP revenue	\$156,000
CSR revenue (\$1071 per qualified student)	\$64,260
<i>Subtotal</i>	<i>\$220,260</i>
Classroom expense (3 x \$78K)	\$234,000
Expense per student	\$3,900
Balance	(\$13,740)
Encroachment as percent	5.9%

The implementation of CSR incurs costs other than the additional teacher salaries. Some of these expenses include staff development costs, teacher materials for subsequent textbook adoptions, curriculum needs, and the facilities costs created by the need for additional classrooms.

Implementation of CSR throughout Oakland schools has remained steady since 2005-06. Over a three-year period, the percent of students that have qualified for CSR funding has risen slightly to 92% in 2007-08, up from 91% in 2005-06. Over time, the District has increased this revenue stream to an estimated \$13.3 million in the 2007-08 fiscal year. However, as previously mentioned, the generated CSR revenues do not cover the full cost of the program's implementation.

To supplement the additional, unfunded cost, the Oakland community has made continual investments of parcel tax revenues. During the 2005-06 school year, OUSD invested \$4.58 million outside of CSR funding to support CSR; during the 2006-07 school year the District invested \$4.9 million in additional funding; during 2007-08 school year, the District invested \$4.2 million to support the program. In February 2008, the Oakland community approved a permanent parcel tax, Measure G, which provides funding for CSR.

Difficulties in centrally managing CSR include the lack of an OUSD transportation system and the unpredictability of enrollment trends. While some school districts manage class size through Central Office enrollment and placement departments, setting a cap on class size and reshuffling student school assignments after enrollment has stabilized each school year, OUSD's challenges with truancy and inability to bus students from one neighborhood to another make these practices difficult to implement and risky.

Decisions about how to best implement CSR should be made at the site level, by school leaders who have the best understanding of the needs of their students. It is important to ensure that principals and teachers understand the full requirements and funding implications of participation the CSR program, and can accurately evaluate their CSR decisions for both instructional and financial impacts. The District has provided a suite of tools and training materials for school leaders, including the School Services of California (SSC) CSR calculator

and customized memos for each school providing examples of the trade-offs involved in implementing CSR. Ultimately, the investment in smaller classrooms must be weighed against programmatic impact and the resulting gains in student achievement for each unique classroom.

Given current state economic and financial trends the District must also consider the impact that an increased number of teachers will have on future compensation costs that will rise as a result of negotiated collective bargaining agreements and other increased costs such as health and welfare benefits. Further, the District's declining enrollment must be carefully monitored and managed to avoid extremely small classes and further increases in encroachment.

Recommendation

Conduct annual CSR cost analysis. It is recommended that the District analyze the impact of CSR on projected school expenditures at least once a year to ensure schools are provided with adequate resources to implement the program. This analysis should include a consideration of future compensation costs, available facilities, student options placement, and projected enrollment decline. Financial Services can monitor class size ratios.

Fiscal Impact to the District

CSR efforts currently cost the District an average of \$4.56 million per academic year that is not covered by CSR funding from the state.

Private Fundraising

Overview

In OUSD, private funds are critical to our school reform efforts. The District relies on private funds to pilot new structures and programs, evaluate them, and then integrate the most successful elements into the District, where appropriate taking them to scale across all of our schools.

As a result of private investments, Oakland Unified School District has been able to tackle crucial problems during a time of declining enrollment and declining public resources. The District opened new small schools and created safer high schools and middle schools by reconfiguring large schools into multiplexes of small schools. Several new and existing small and large elementary schools serving our poorest communities have achieved statewide recognition for their success in closing the achievement gap. Using private funding, OUSD has raised standards of performance and invested in our workforce and in parent leaders. Since 2003, the District attracted and trained dozens of new principals, over a thousand new teachers, and thousands of parent leaders who now serve throughout the District. Our classified workforce now routinely upgrade their skills through a wide array of in-person and on-line courses. The District has created agreements with the city and local agencies and successfully attracted national and local funding for health clinics to serve our middle school students and their families, as well as piloted a model program for healthy eating and active communities that will soon go to scale.

Analysis

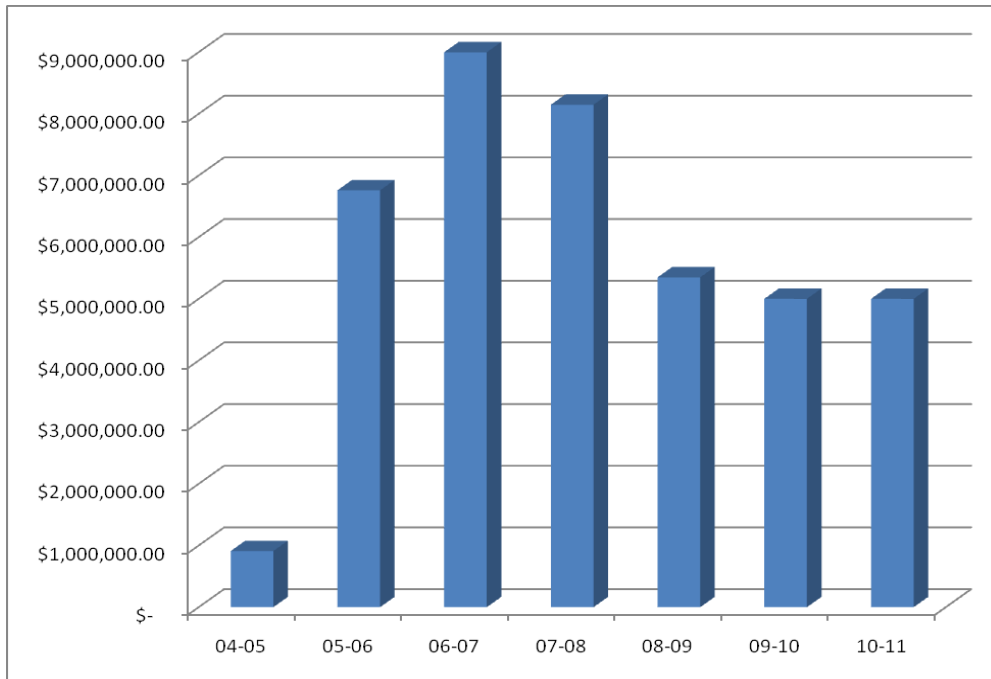
Since 2000, the national and local philanthropic community has increasingly invested in OUSD and our partner community and education reform organizations, to work together to create better academic and life outcomes for our students. Leading national donors have included: Annie E. Casey Foundation, Carnegie Corporation, Bill & Melinda Gates Foundation, Michael & Susan Dell Foundation, William and Flora Hewlett Foundation, the Broad Foundation, and Atlantic Philanthropies among others. Local donors range from individuals and businesses, to major corporate foundations and Bay Area family foundations: Wayne and Gladys Valley Foundation, Y & H Soda Foundation, William H. Donner, Foundation, John Doerr, Crowley Maritime, Clorox Company Foundation, the Rogers Family Foundation. Many others have also stepped forward to encourage the District to work in partnership with other organizations to build upon student achievement gains and the overall improvements in our district.

Starting in spring 2004, Oakland Unified School District launched a fundraising campaign to attract national and local donors to invest in high achievement, equitable outcomes, and public accountability. District leaders and community partners used seed funding from national donors to write a three-year reform plan called Expect Success, designed to transform the District into a model of urban reform. The implementation period has now stretched to four years but the original plan has for the most part been executed. To date, Oakland has raised \$30 million from private sources and succeeded in being the most improved urban school district in California over the last four years.

OUSD created a Strategic Projects Office in spring 2008 to maintain current funding partnerships and form new funding relationships to support strategic reform efforts, maintain all financial and project reporting, and ensure project milestones are reached. This office works with the Board of Education, Superintendent, and Cabinet to facilitate a strategic planning cycle in consultation with district partners and stakeholders, which is tied to the annual budget cycle. The Board of Education, Superintendent, and Cabinet determine the District's strategic

priorities for private funding, review grant proposals and reports, and monitor progress against metrics. For the coming five years, our goal is to raise \$3 to 7 million per year.

Private Fundraising by Year (in millions)



The District is currently conducting a feasibility study for a new fundraising campaign to encourage national and local donors to make a Ten Year Pledge to Oakland to continue the transformation into a national model of urban reform.

Recommendations

Build consensus around fundraising goals. The District must lead the broader community to consensus in support of a limited number of key strategies to meet specific measurable goals within a set period of time.

Build fundraising partnerships. Conduct collaborative fundraising with the agencies, local nonprofit organizations, higher education, and other institutions that serve our District and our schools to jointly meet these specific measurable goals within a set period of time. Funders have greater interest in funding multiple agencies working jointly.

Align the use of private and public funds. Exercise discipline in annually prioritizing the allocation of public resources in alignment with private resources to maximize impact.

Share results. Commit to being a learning organization and a model urban district. Routinely share lessons learned with other school districts and benchmark work at OUSD against best practices.

Fiscal Impact to the District

It is estimated that on average the Strategic Projects Office will bring in \$5 million per year via our private fundraising efforts. The Strategic Projects Office is 100% funded by private donations, with office costs running 6%-10% of the total revenue generated. All expenses that are supported by private funding will be one-time expenses or will have a clear plan to become integrated into the finances of the District once the funding expires.

Leveraging Local Tax Bases

Overview

The financing structure for public education in California is unique to other states because a large portion of funding comes through state revenue sources such as Revenue Limit and state categorical funds. Initiated by policy changes such as Proposition 13 and court cases such as *Serrano v. Priest*, these statewide shifts created some unintended consequences. Nationwide, the average school district receives 47% of its revenues from state sources, as opposed to 60% in California.¹¹ The implication of this type of revenue distribution is that the change in a school district's overall funding is highly correlated with the state's economic and fiscal shifts.

California has experienced dramatic fluctuations over the past two decades in funding availability, which has created instability for the state's school districts. The fluctuations in funding impact the consistency, type, and quality of programs that schools are able to offer to students and their local communities.

One way in which to mitigate dependence on the State for funding is for a school district to build revenue streams that are not tied to state sources. A tool often used by school districts to levy additional resources is the local parcel tax.

In Oakland, the local parcel tax, Measure E, generated an additional \$20.1 million for the school district each year. In February 2008, the voters approved Measure G, a successor to Measure E and a permanent parcel tax for schools that will generate the same amount of revenue each year. Measure E and Measure G funds are overseen by a District advisory committee selected by the Board of Education and the State Administrator.

In November 2008, the State Administrator sought voter approval for another parcel tax, listed on the ballot as Measure N. Measure N would have directed 85% of proceeds toward teacher compensation, with the other 15% earmarked for use at the charter schools in Oakland. Opposed by all of the District's employee unions, the ballot measure did not pass.

Analysis

Parcel tax monies comprise approximately 6.5% of the District's General Purpose Fund revenues. The District Budget Advisory Committee (DBAC), oversees the process of investing these dollars in programs such as class size reduction, programs to attract and retain high quality teachers, libraries, arts and music, and a variety of other supplemental programs for students.

When comparing the proportion of unrestricted, local resources that make up a school district's General Fund in Alameda County, OUSD is average. Some communities, such as Berkeley and Emeryville have much larger proportions of unrestricted, local resources that contribute to the ongoing operation of those districts. The table below provides a comparison using 2006-07 fiscal year data.

¹¹ National Center for Education Statistics. 2008. Table 1 in Revs and Expenditures of U.S. Public Education. U.S. Department of Education. Washington, DC.

School District	Total General Fund Revenue (2006-07)	Unrestricted, Local Resource as % of Total GF Revenue
Berkeley Unified	\$107 million	26.2%
Emeryville Unified	\$9.8 million	19.4%
Oakland Unified	\$440 million	6.5%
Hayward Unified	\$188.5 million	1.1%
Fremont Unified	\$266.6 million	1.2%

Despite overall state funding trends, Oakland’s local tax base remains steady with continued growth in assessed value. The strong tax base is marked by no one organization comprising more than 0.6% of the total assessed value in the Oakland metropolitan area.

Despite Measure N’s failure, it should be noted that without any campaign effort to support the parcel tax, 61.45% of voters voted in favor. The Measure fell less than 5%, or about 6,800 votes, short of the two-thirds vote required to pass. This significant showing in support of the parcel tax followed substantial “No on N” campaigns (supported by the Oakland Education Association, opposing the Measure for its support of charter schools, and other District unions for the Measure’s failure to include funding that would benefit their members).

Recommendations

Continue to pursue a new parcel tax. Significant voter support of past parcel taxes in Oakland is an indicator that a new parcel tax is a real opportunity to build another permanent, local revenue stream that can help create financial stability year-to-year.

Include all stakeholders to ensure backing. Taking a lesson from the failure of Measure N, community groups must be involved in the creation and design of any proposed parcel tax. Partners from the unions, charter schools, and community must be brought to the table early, so they can be counted on for support in campaigning. Any party receiving the benefits of the parcel tax must actively support a measure.

Secure campaign funding. Basic resources are needed to educate the Oakland community about the use of existing District funds and publicize the importance of additional funding for public schools. A campaign effort in support of a parcel tax could be the key factor in winning over the small difference in the percentage of voters needed to approve a tax.

Design the parcel tax for success. The structure of the parcel tax must take into account the voters’ perceptions of what the community can bear, as well as strategically preclude opposition. The District should gather feedback on potential reactions to a progressive parcel tax which increases over the life of commitment, basing the parcel tax on a square footage, directing proceeds toward incentive pay for employees, and other possible structures. The design of the proposed tax must also ensure a meaningful contribution to funding recipients.

Fiscal Impact to the District

A successful parcel tax will result in additional revenue for the District. Ideally, the community would pass a perpetual parcel tax with revenues of approximately \$15 to \$30 million annually.

Redevelopment Agency Proceeds

Overview

The District has issued three Certificates of Participation (COP). Proceeds from the COP were used to finance building and improvements to facilities made by the District. In all instances these improvements benefit the project area or the immediate neighborhood in which the project is located, eliminate one or more blighted conditions within the project area, and are consistent with the Oakland Redevelopment Agency's (RDA) implementation plan. As explained in the 2005 Multi-Year Financial Recovery Plan (MYFRP) Redevelopment agencies finance improvements through tax increment financing. The RDA proceeds are restricted for use on capital facilities.

The 2005 MYFRP recommended that annual payments received from the RDA be used to pay for the COP debt service payments. Previous to the MYFRP recommendation, COP payments came from the General Fund. Since that time, the following transactions have occurred in order to pay down the COP:

- 2004-05 Fiscal Year – The District received payment from the Oakland RDA in amount of \$2,065,097. The Alameda County Office of Education has directed the District to reserve 43.3% of prior year RDA revenue until the state rules on requiring districts to go back and pay the revenue limit offset. The amount of the reserve to pay for the potential revenue limit offset was \$894,187.
- 2005-06 Fiscal Year – The District received payment from the Oakland RDA in amount of \$3,728,305. The Alameda County Office of Education has directed the District to reserve 43.3% of prior year RDA revenue until the state rules on requiring districts to go back and pay the revenue limit offset. The amount of the reserve to pay for the potential revenue limit offset was \$1,614,356.
- 2006-07 Fiscal Year – The District received payment from the Oakland RDA in amount of \$5,056,126. Of that money, \$2,866,823 was deposited in the facility Fund 25 to cover the offset on the state's tax for commercial redevelopment. Another \$2,189,303 was deposited in the General Fund to account for a Revenue Limit offset from the state/CDE. Technically these funds are not available for District use. RDA Funds received for the 2006-07 fiscal year are used to pay for COP debt service payments first, and approved facility projects with remaining balances.
- 2007-08 Fiscal Year – The District received payment from the Oakland RDA in amount of \$7,889,020. Of that money, \$4,473,074 was deposited in the facility Fund 25 to cover the offset on the state's tax for commercial redevelopment. Another \$3,415,946 was deposited in the General Fund to account for a Revenue Limit offset from the state/CDE. Technically these funds are not available for District use. RDA Funds received for the 2007-08 fiscal year are used to pay for COP debt service payments first, and approved facility projects with remaining balances.

The District anticipates receiving RDA funds for the 2008-09 Fiscal Year in September of 2009. The projected payment is approximately \$6 million with \$3,402,000 going to Fund 25 and \$2,598,000 going to the state/CDE for Revenue Limit offset.

Analysis

Due to the worsening economic crisis, during the summer and fall of 2008 the variable interest rates on the District's COP loans skyrocketed from around 2% to 10%. The District took action to avoid the extreme increase in the cost of carrying COP debt. At the October 29, 2008 Board of Education meeting, the State Administrator approved a plan under which OUSD would immediately payoff all COP debt from RDA reserves (a two-year loan from the Special Reserve Fund 17 enabled this payoff scenario).

- Fiscal Services determined that Redevelopment Agency (RDA) funds were not a proper source to pay off the Series J Bi-Tech systems debt service payment, in the amount of \$1,335,000. Instead, this debt was paid off in full using interest from Special Reserve Fund 17.
- The Series H Honeywell debt service obligation, in the amount of \$5,955,000, was paid off in the following manner: \$4,000,000 was paid from RDA funds and \$1,955,000 was paid from Special Reserve Fund 17. The Special Reserve Fund 17 will be reimbursed by the RDA funds coming in the 2009-10 fiscal year.
- The Series G Capital Facilities debt service obligation is for \$9,240,000. The Chabot Science Observatory is responsible for \$8,110,000 (an arrangement approved in the 1999-2000 fiscal year), and the District is responsible for the remaining \$1,130,000. The District's portion of the obligation was paid from the Special Reserve Fund 17. The Special Reserve Fund 17 will be reimbursed by the RDA funds coming in the 2010-11 fiscal year. The Chabot Science Observatory's portion of the debt is being refinanced using a bank qualified loan. Chabot remains responsible for payment.

Recommendations

The District will use future RDA proceeds as follows:

- a. 2009-10 Fiscal Year pay back Special Reserve fund \$1,955,000
- b. 2010-11 Fiscal Year pay back Special Reserve fund \$1,130,000

RDA funds in the amount of \$3,085,000 must be reserved until the Special Reserve fund is reimbursed based on the payment schedule above. After the special reserve fund is reimbursed, the Superintendent's cabinet will make recommendations to the State Administrator and Board of Education for approval of special Facilities projects.

RDA proceeds will have to be used to pay back the Special reserve fund from the payoff of COP debt in the amount of \$1,955,000 in the 2009-10 fiscal year and \$1,130,000 in the 2010-11 fiscal year. It should also be noted that 43.3% of all RDA proceeds must be rebated to the state for a required tax offset.

Fiscal Impact to the District

The early pay off of the COP debt has stabilized the District's long term debt position. Credit rating agencies should look favorably at the District for managing its long debt in turbulent economic times.

Expenditure Controls

Managing the Use of Consultants and Vendors

Overview

With the District facing increasing economic challenges, it is essential to maximize economies of scale and manage the contract process as efficiently as possible. The District currently employs one clerk to process incoming contracts from all sites and departments. Each site or department negotiates a separate agreement, regardless of how many sites a vendor may be serving. For instance, Sports4Kids serves 34 schools in the District, and each school negotiated a separate contract with the organization, which was then processed through the central office.

Individual sites and departments that may be using the same, or similar, consultants and vendors do not have a quick and easy way to share information on negotiated rates, other contract terms, or the quality of the services delivered by contractors. Recently, new billing rate guidelines have brought alignment to how consultants are paid across sites, but increased transparency in the contract process would allow for District employees to negotiate even more competitive terms when working with outside vendors.

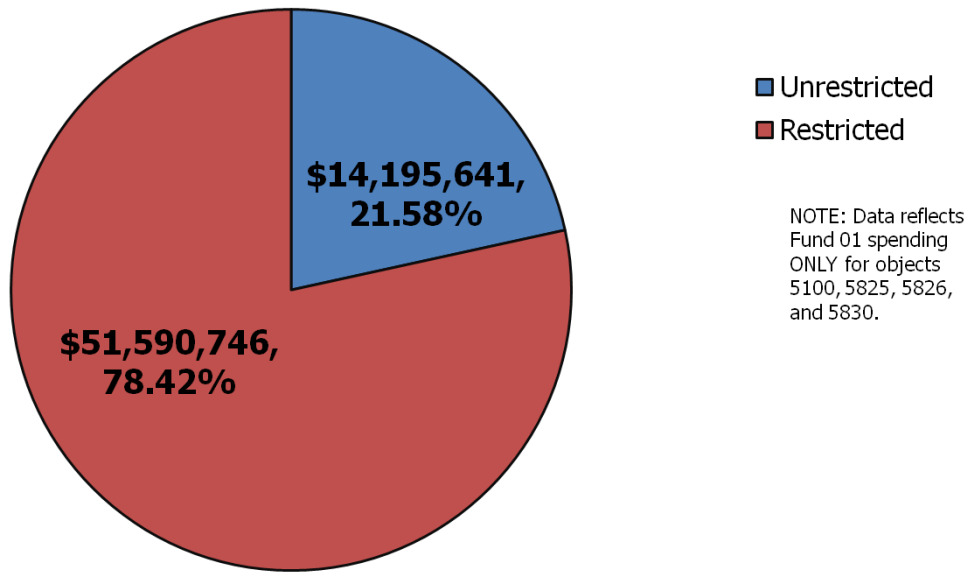
The District's current process for managing contracts demands considerable time from Network Officers, Cabinet Officers, and the Superintendent, as they review many individual agreements. In addition, the lack of an efficient system means that some smaller contracts may not be reviewed at the executive level. The cumbersome process limits District leaders' ability to respond quickly to urgent needs and emergencies. Additionally, the outdated process is difficult to navigate, and is one of the primary reasons principals cite for carryover of categorical funds.

The move to have all contracts ratified by the Board of Education (and therefore listed in Board meeting agendas) has greatly increased the transparency of District spending, as well as provided a higher level of scrutiny as to the effective use of contract dollars. Further refinements are needed to build efficiencies and a community understanding of the benefits and purpose this change.

Analysis

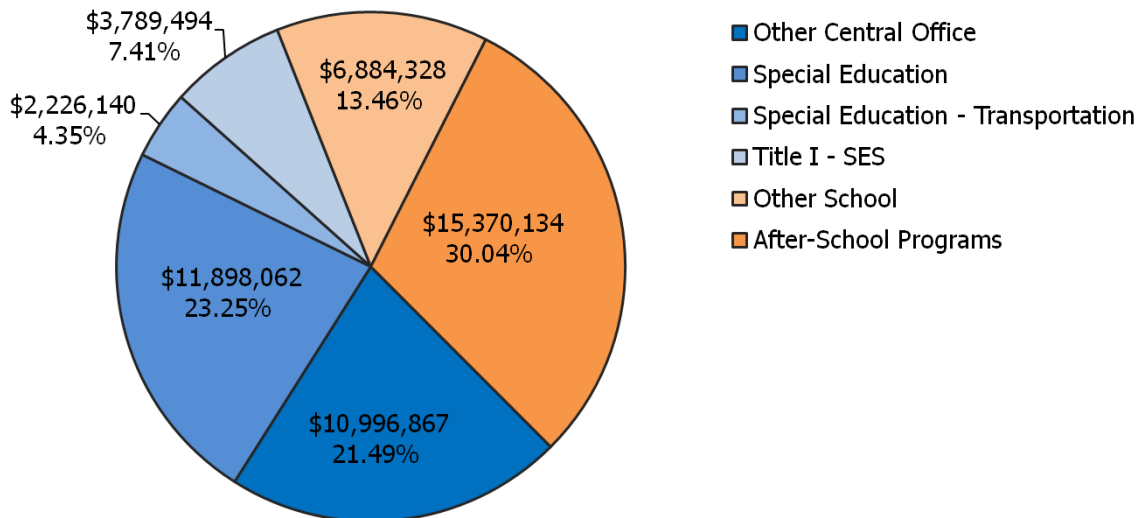
In 2007-08 the District spent \$65.9 million on consultants and vendors. Unrestricted funds made up \$14,195,64 (21.58%) of that spending, while the remaining \$51,590,746 (78.42%) came from restricted funds.

Restricted vs. Unrestricted Spending on Consultants in 2007-08



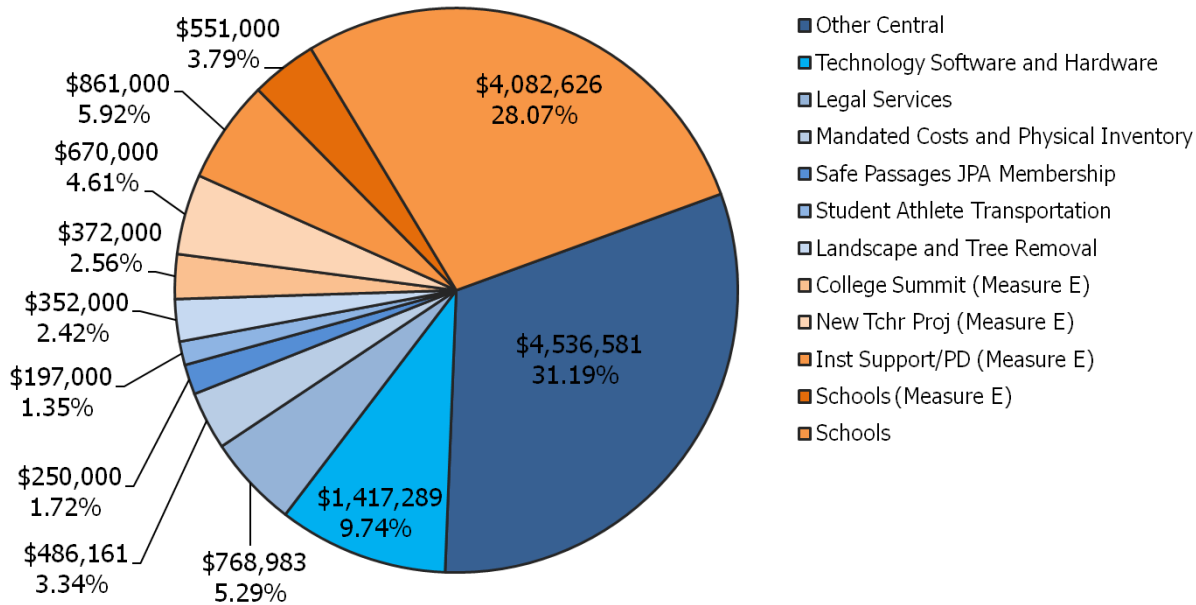
OUSD spent a large portion of its restricted consultant dollars on federal and state mandates such as special education (\$14M), after-school programs (\$15M), and Title I supplementary education services (\$3.8M).

Restricted Spending on Consultants in 2007-08



It is mandated by state law that the After School Education and Safety (ASES) programs must be contracted out to vendors. Similarly, The \$3 million Central Office Title I expenditure is a mandatory set-aside per federal guidelines for supplemental education services.

Unrestricted Spending on Consultants in 2007-08



A large portion of unrestricted consultant dollars were spent on school-based items, to make up \$ 6.5 million, or 45%, of total unrestricted consultant spending. Approximately 43.5% of the restricted expenditures were spent at the school level.

The District is currently evaluating and developing a local vendor policy to outline and limit use of contractors and vendors outside of Oakland. Any future solicitation for contracts or new contract work must be in compliance with the completed Board policy and Education Code.

Recommendations

Develop District contracts with vendors. Negotiate master district contracts with vendors that serve multiple sites and departments. This will ensure contract consistency, as well as reduce duplication of efforts at individual sites and the pile up of contracts to process through the Central Office.

Consider creating a Contract Analyst position. The new Contract Analyst will be charged with negotiating and managing contracts for vendors serving multiple sites or departments, increasing consistency across contracts, securing better rates and terms for the District, and implementing and refining the use of technology tools. Alternatively, existing job descriptions could be redesigned to include these responsibilities.

Build a technology tool to streamline processes. A web tool accessed by all district employees would provide centralized data on all contractors and vendors that have worked for the District. District employees, regardless of their site or department, would have access to information on rates, services, performance, and competing contractors. The contract management tool could also save time with electronic routing and approval of contracts.

Minimize the use of contractors. Use of consultants and vendors should be limited to one-time projects, upgrades or enhancements, and to fill seasonal demands for temporary workers. Consultants should supplement and support the work of district employees. If year-round, ongoing work is required, a staff position should be created. If District employees have the skillsets and willingness to complete needed work, the District should prioritize assigning work to employees and building the capacity of the staff.

Limit General Purpose fund spending. General Purpose dollars should not be used to pay for consultants and vendors if possible. The District can set a target for 20% reduction in the use of General Purpose funds over the course of the next fiscal year for the Central Office (this target should not apply to school sites), which will focus efforts to scrutinize effective and strategic use of consultants.

Fiscal Impact to the District

If increased efficiency in the contracts process and more competitive pricing in contract terms resulted in only a 2% reduction in total contract costs, the District would see a savings of approximately \$1.3 million annually. The cost of a contracts analyst is estimated at \$100,000 per year.

A 20% reduction in the use of General Purpose funding for consultants and vendors will result in a \$900,000 savings.

Retaining High Performing Employees

Overview

Oakland Unified School District invests \$324 million per year, or approximately 67% of the General Purpose Fund budget, in employee compensation.¹² This large investment makes it imperative that the District maximize value by retaining its high performing employees. OUSD has dedicated a variety of resources to build the capacity and quality of employees, including intensive professional development for teachers through Professional Learning Communities, one-on-one leadership coaching for principals, and professional development for classified staff through online training courses. Most recently, the District has launched Investing in Our People (IOP), a comprehensive project to ensure that quality employees are recruited, retained, and promoted throughout the organization.

Schools with high turnover have an added challenge in their work to raise student achievement. A large portion of district and site-based resources are diverted to the constant need to rebuild staff. Human and financial capital is spent on the process of hiring and replacing employees, rather than directed towards ongoing academic programs. In 2007, The National Commission on Teaching and America's Future (NCTAF) piloted an 18-month study of these costs. The study's Teacher Turnover Cost Calculator estimates the total hard cost of teachers leaving OUSD to be \$10.325 million (approximately \$34,400 per teacher) in 2008-09 alone. This figure does not reflect the impacts of turnover on student achievement.

OUSD's own recruiting records from the 2007-08 academic year show that 476 new teachers were hired using recruiting tools, including the EdJoin Inhouse Application System and partnerships with programs like The New Teacher Project and Teach for America. The cost of participation in recruiting events and programs (not including materials, recruiting staff and other staff time/salaries, or on-ramping and training costs) equaled \$923,044, or \$139.17 per teacher hired.

The District sees a steady turnover of principals, around 15% per year. District leaders anticipate that 15 to 16 principals will retire over the next five years, while eight to ten principals will be let go each year due to performance issues. It is projected that another one to two principals will leave the District voluntarily, to pursue other career opportunities. Anecdotal evidence indicates that OUSD principals are highly attractive candidates to surrounding school districts, due to the training they receive on the job in Oakland, as well as the diversity of responsibilities they manage for the District.

Data has not been collected regarding the reasons high-performing principals leave positions within OUSD. Informal interviews point to fatigue and a lack of work-life balance as being primary factors, with compensation rates as a secondary factor. Leadership and Operations coaching offered by the District over the past year has received extremely positive evaluations from principals as a means to provide needed support.

Because of the diversity of their functions and management, there is not enough data available on turnover of classified staff to draw conclusions concerning impact and corrective measures. Research is needed in this area.

While the District works to provide competitive compensation packages to its employees, it must balance this effort with the need to maintain a sustainable budget. Since 2004, the District has worked diligently to achieve solvency and must ensure appropriate structures exist to evaluate whether any tentative bargaining agreement

¹² Oakland Unified School District 2nd Interim Financial Report. March 12, 2008.

can be supported by District resources for the duration of the contract. These internal structures are supported by AB 1200 disclosure requirements, as well as AB 2756 which requires budget analysis of tentative agreements and oversight by the County Office of Education.

Analysis

Other than anecdotal information, little data is currently available regarding the specific reasons that OUSD employees leave their jobs. District data tracking new teachers who started teaching in the 2005-06 and 2006-07 school years shows that approximately 20% of the recruits were still teaching for OUSD three years after their start date. In other words, more than 80% of teachers will leave the District before beginning their fourth consecutive year of teaching. Looking ahead, OUSD will be forced to redouble recruiting efforts as baby-boomer employees retire. Currently, one-third of the District's teachers are 55 or older.

Competitive compensation is a key component in ensuring that high-quality staff remains within any organization. Of six comparable school districts in the Bay Area¹³, OUSD ranks two out of six in average compensation for its employees. However, OUSD also has the highest percentage of benefits as total compensation in Alameda County.¹⁴ Neighboring districts pay slightly higher starting salaries, but require employees to shoulder more healthcare costs. For example, San Francisco Unified School District (SFUSD) paid about \$5,500 more for a starting teacher salary in 2007-08, but did not offer as generous a healthcare package. SFUSD's base starting salary for teachers will jump higher, to around \$50,000 in 2009-10, following the passage of the city's parcel tax. In order to effectively compete for high quality staff from teachers to district administrators, OUSD must be able to offer attractive compensation packages that are coupled with systems that support and promote high performance.

Below is a chart showing the resources necessary to offer a 1% increase in salary for the 2008-09 fiscal year, based on current, active employees within OUSD. It should be noted that negotiated annual compensation increases are ongoing costs for the District. Additional compensation increases in future years must be compounded by salary increases including health and welfare and step progressions. Included below in Table 1 are the annual impacts for increased compensation in the District. Table 2 provides an estimate of the on-going costs associated with providing a 1%, 3%, and 5% raise to all OUSD employees.

Table 1.

Benefits - Health & Welfare (Unrestricted)	\$2.3M increase each year
Benefits – Health & Welfare (Restricted)	\$1.6M increase each year
Step Progressions	\$2.4M increase each year

Table 2.

TOTAL FOR ALL ACTIVE OUSD EMPLOYEES	Compensation Increase (One Fiscal Year) ¹⁵		
	1 percent	3 percent	5 percent
Salary	\$2.31M	\$6.94M	\$11.54M
Benefits – PERS/STRS, Medicare, SS	\$1.36M	\$2.29M	\$3.09M
Subtotal	\$3.67M	\$9.23M	\$14.63M

¹³ This includes San Francisco Unified, West Contra Costa Unified, Richmond Unified, Hayward Unified, and Albany Unified.

¹⁴ Alameda County Compensation Comparison Reports.

¹⁵ Does not include temporary or hourly employees.

Recommendations

Better data collection. The District should track and maintain data about high performing employees' reasons for leaving OUSD jobs, and which employers they go to work for after leaving OUSD. This data can be gathered through exit interviews and surveys, and used to focus retention efforts on the areas that matter most to top talent.

Highlight the value of OUSD benefits. New recruits and young employees may not see the value in the benefits offered by the District, especially when faced with competing compensation packages featuring slightly higher base salaries. Principals, managers, and recruiters must present compensation in a manner that makes the value of overall package transparent.

Consider options to boost salaries. The District must consider any viable opportunities to enable closer competition with neighboring school districts for high quality staff, without jeopardizing the organization's financial stability. An additional parcel tax may provide such an opportunity. Given the realities of the current fiscal and economic climate in California, the District must carefully weigh the benefits and drawbacks against other investments that could be made to reach its goals. Financial analysis for short-term and long-term impacts must be conducted before any salary adjustment.

Prepare for increased turnover as baby boomers retire. A significant portion of the District's workforce is approaching retirement. Pipelines and transition plans must be built to manage this predictable loss of experienced talent and leadership. Schools and departments with the highest proportions of staff approaching retirement can be targeted for intervention.

Regularly review retention and turnover. Complete annual financial and operational analysis to identify turnover trends, step and column patterns, and the associated costs to the District of recruiting and replacing employees.

Fiscal Impact to the District

The NCTAF Cost Calculator estimates that a 30% reduction in teacher turnover would result in a \$3 million annual savings.

Investing in technology

Overview

The implementation of the District's Information Technology strategic plan, now being developed, will improve the quality of technology tools available to support student achievement and decrease the costs of providing business services. The strategic plan outlines a process for upgrading the technology infrastructure across the District over the next four years. This will enable every administrator, teacher, and student to access computers and networks to stimulate teaching and learning, as well as facilitate the use data.

Analysis

Upgrading technology presents opportunities for significant cost savings and increased efficiency. Technology Services is piloting BigFix Power Management this year, for District-wide implementation by the end of the school year. BigFix enables centralized management of District computers, allowing Technology Services to remotely ensure that hardware has been powered down at the close of the school day, rather than leaving computers on or on a low-power "sleep" setting. The US Department of Energy reports that the average personal computer wastes up to 400 kilowatt-hours of electricity per year, which can equal \$50 per computer annually (depending on energy costs).

Estimated Power Management Breakdown (per year)

Computer State	Power Used	Approx. Cost
Only on for work hours	328 kWh	\$33
Left on low power mode	502 kWh	\$50
Full power all of the time	1,192 kWh	\$113

The District currently operates a minimum of 6,500 personal computers. Enabling Technology Services to remotely turn those machines off during the nights and weekends will result in a savings of \$110,500 to \$520,000 in annual energy costs.

In addition, utility companies offer rebates to public organizations for the use of power management systems. PG&E will provide a rebate of \$15 per computer to defray the cost of the BigFix technology. BigFix will cost the District \$162,400 for a three-year license. The District stands to recoup \$97,500 in rebates from the utility company.

The BigFix package provides a suite of other tools that the District will utilize, including Asset Discovery & Inventory. This will allow Technology Services to catalog and track the use District hardware, increasing security and decreasing costs associated with replacing lost or stolen computers.

Another technological upgrade that is currently being tested for District-wide use is improved wireless routers. Meru Networks wireless routers are based on the technology used for mobile phones. Meru routers provide a larger network area than current routers, thus requiring one-third of the router hardware needed. Less hardware and wiring decreases the investment required to purchase hardware, and also the installation costs and ongoing maintenance time required from Facilities Services. If testing is successful, Technology Services plans to move to Meru routers over the course of the 2009-10 school year.

OUSD has faced challenges with adoption of new technology. For example, as of August 2008 81 out of 110 school sites had access to the AERIES system used to transmit and manage attendance data via the Web. Of these 81 schools with the required software and infrastructure, 37 were still not using the program to report attendance data, instead relying on the old Scantron system. This presents challenges, as the AERIES system automates checks for data integrity and enables efficient, timely attendance reporting. The problem will be compounded as AERIES introduces system improvements, including automated notification emails and text messages to parents of absent students. Schools that are not using the technology will not be able to take advantage of these new tools—tools that could help increase ADA, and as a result increase District revenues.

The District continues to work to automate business processes, with particular focus on enabling employees to access systems directly, access and search data quickly, and independently complete tasks. The District Intranet will be redesigned to support this “self-service” business model, stepping employees through most processes, and pointing them to the right resources. These features will reduce the costs of tech support, facilitate cross-departmental collaboration, and reduce the time it takes for employees at all levels to run reports and access current data.

Recommendation

Continue the use of private funding to update systems. Some past technological improvements have been funded through grants. Technology Services should continue to work in partnership with the Strategic Projects Office to identify opportunities to fund and roll out upgrades and new systems.

Look for corporate partnerships. The District has benefited from rebate programs and other incentive programs offered by the private sector and should seek out similar opportunities.

Require that new technology is used. Adequate training, support, and enforcements must be implemented with technology updates to ensure that new systems and tools are used by District employees. Where training is not sufficient to encourage adoption, the District might consider policy mandates.

Prioritize the creation of a central data storage system. Facilitating employees’ access to current data and reports will improve decision-making, and increase time that can be dedicated to analysis and program improvements. Easy access to organized, cross-departmental historical data will improve the development of effective District strategies.

Reducing Utility Costs

Overview

The cost of energy in the United States over the past several years has steadily risen, primarily due to increases in oil and gasoline prices. As a result, private businesses and governments have looked to alternative energy sources to provide not only a more cost-effective solution but also more environmentally friendly options. Particularly in the state of California it is not uncommon to find many places where electricity is provided through wind, solar, or water-generating mechanisms.

Over the past three years, OUSD has spent in excess of \$8 million on utilities such as disposal services, gas, recycling, electric, water, and telephone. That is approximately 4% of the District's unrestricted General Fund. In 2007-08, that was roughly \$210 per student that the District spent on basic utility functions.

The District must carefully consider the impact, both financially and environmentally, of investments in programs that help to reduce the District's dependence on and use of energy. Given the District's continued progress toward financial sustainability and the status of the State budget outlook for 2008-09, it is imperative to pursue opportunities that may realize cost savings for the District.

Analysis

Observing the expenditures on utilities over the past three fiscal years, there has been a reduction in overall utility spending for the District. In both total and spending per student, spending on utilities for the District has decreased.

Utility	2005-06	2006-07**	2007-08
Disposal Services	\$1,150,873	\$1,013,451	\$1,026,659
Recycling	\$160,989	\$165,908	\$147,142
Gas / Heat / Electric	\$5,136,875	\$5,456,962	\$4,420,774
Water / Sewage	\$946,116	\$991,778	\$1,091,310
Telephone	\$1,329,085	\$881,229	\$1,461,888
Total	\$8,727,920	\$8,509,328	\$8,147,773

Students	41,369	39,964	38,852
Total Per Student	\$210.97	\$212.93	\$209.71

* - projected expenditures for June 30, 2008

** - sharp decrease in telephone costs due to e-rate abatement

Across all utilities there are several trends of note, including:

- The District spends almost nine times as much on garbage and disposal services than it does on recycling.
- Gas, heat, and electric make up approximately 55% of the spending on utilities in any of the years from 2005-06 to 2007-08. This may represent one of the larger opportunities for the school district to recover savings in utility costs.
- The reason for the lower telephone costs in the 2006-07 fiscal year is because of a refund from the Federal Schools & Library Corporation.

In April of 2008, PG&E completed a Benchmark Energy Report for the District, based on energy use at all sites in 2007. During the summer and fall of 2008, Facilities Services followed up with detailed assessments of 14 sites

that had recorded extremely high energy use. The District has already implemented PG&E's recommendations for efficiency improvements at nine of these sites, and continues to work on improvements at the remaining high-use sites. In addition, Facilities Services incorporates efficiency updates into all improvement projects. These updates can include installing energy efficient appliances and lighting, improving insulation and windows, as well as educating site leaders about the importance of reducing the use of energy.

Various rebates and incentive programs are offered by the utility companies for retrofits to increase energy efficiency at sites, as well as building new facilities that incorporate designs and tools to conserve energy. PG&E also offers training programs and incentives for teaching energy efficiency within the organization. OUSD has taken advantage of some of these programs.

Recommendations

Develop a school utility refund program. Currently each OUSD school site receives an allocation in their budget for utilities such as garbage, electric, and water. However, that budgeted or expense amount does not impact their overall budget but is considered a "District contribution." In order to incentivize sites to conserve energy, the District should institute a utility refund program that would provide additional dollars to school sites that are able to save money by reducing their utility costs.

Conduct research on potential state energy rebates. For the past decade, California has offered numerous rebate programs for public organizations that invest in products and equipment that help to conserve energy. Local utility companies such as Pacific Gas, and Electric (PG&E) has offered rebate programs to private residences for several years now. The District should invest the time to investigate possible opportunities to reduce energy costs while recouping savings from available rebate programs.

Revisit District-wide opportunities for installing green products. The District should continue to explore and evaluate the installation of more cost-effective and environmentally friendly technologies in schools and other administration buildings throughout Oakland.

Increase recycling. Recycling costs the District less than waste-removal. Sorting recyclable materials may provide opportunities to further reduce costs, or produce small amounts of revenue. Best-practices can be learned from the few school sites that have already implemented sorting programs.

Contribution to Special Education

Overview

In recent years, the cost to provide services to Special Education students has risen much more quickly than increases in revenue made available to California school districts for these costs. Additionally, local school districts are being asked to shoulder a greater burden of the cost for Special Education as state and federal contributions make-up a smaller portion of the total cost.

Federal legislation, titled the Individuals with Disabilities Education Act (IDEA), requires that all children with disabilities receive a “free, appropriate public education.”¹⁶ Each student receives an Individualized Education Plan (IEP) that details the services and modified curriculum necessary to educate that child. This plan is tailored to the unique needs of each student. The IEP is tied to funding contributions that help to offset a portion of the cost to implement the plans, including transportation and classroom resources. The remaining costs must be funded by the local school district as dictated by federal law.

The difference between the sum of the state and federal resources and the true cost to carry out each IEP for the special education department is the District’s contribution, also called the “encroachment,” on the General Purpose Fund. In essence, the encroachment represents dollars that are being pulled away from the General Purpose Fund for child-specific programs that are mandated by state and federal law.

The cost to educate a Special Education student in California is much higher than the cost to educate a student without special needs. According to a California Department of Education study, the cost of educating a special education student is 228% greater than the cost to educate a student without special needs.

Analysis

In 2002-03, Special Education services were evaluated with the goal of ensuring that categorical funding was being spent in accordance with restrictions, while retaining quality services for this student population. From this evaluation grew various actions that were instituted through 2003-04. This included enforced caseload limits, setting appropriate pupil to teacher ratios, renegotiating non-public school contracts, more stringent evaluation and needs assessment of students, and increased efficiency in operation and cost for transportation. As a result, a strong instructional program that met the needs of each special education student was maintained, while a significant reduction in the District’s contribution to Special Education was made. The table on the next page displays the District’s contribution to the costs of Special Education as a percent of the total General Purpose Fund.

¹⁶ Individuals with Disabilities Education Improvement Act of 2004.

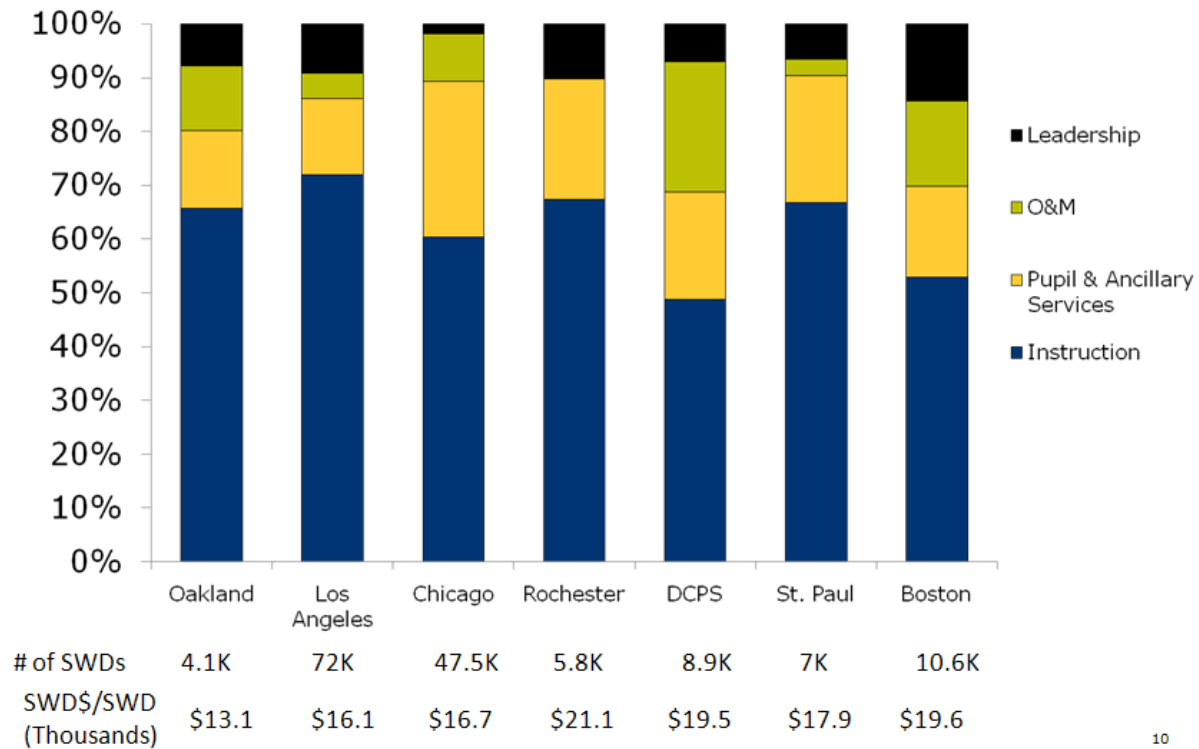
Special Education Spending and Contribution Rates

Year	Total Unrestricted (UR) Funding	Total Special Ed Funding	Federal & State Contribution	District Contribution	District Cont. as % of Total UR
2002-03	\$264,864,544	\$41,105,265	\$17,997,094	\$23,108,171	8.8%
2003-04	\$239,172,488	\$32,789,228	\$16,143,383	\$16,645,845	7.0%
2004-05	\$230,606,406	\$59,244,154	\$20,505,706	\$17,085,546	7.4%
2005-06	\$253,554,474	\$59,991,459	\$44,642,016	\$15,349,443	6.1%
2006-07	\$268,198,595	\$59,717,221	\$43,914,753	\$15,802,468	5.9%
2007-08	\$257,428,600	\$61,411,094	\$45,659,561	\$18,524,150	7.2%

Data Source: OUSD Financial Services data files. Note that Federal & State Contribution also includes some other small local funds such as the SEMP-Mental Health fund from ACOE.

In a study conducted by Education Resource Strategies (ERS) on the District’s resource allocation patterns, ERS observed that when compared to other similar urban school districts¹⁷ OUSD spends a similar proportion of its General Fund on Special Education.

Special Education Resource Allocation Across Districts



10

Since 2003, the California Department of Education began monitoring compliance requirements consistent with federal regulations set forth under the “maintenance of effort” requirement under IDEA.¹⁸ These regulations

¹⁷ These school districts included Los Angeles Unified, Chicago Public Schools, Rochester City School District (NY), D.C. Public Schools, St. Paul Public Schools (MN), and Boston Public Schools (MA).

¹⁸ Part B of IDEA (20 USC 1413 (a)(2)(A)) and implementing regulations (34 CFR 300.230-300.232)

were instituted to ensure that federal funds were used to supplement and not supplant state and local funding for Special Education. Financially, the requirement is met through the comparison of spending on Special Education in the current year versus the prior year. Adjustments to the calculation are permitted under the following guidelines:

- The voluntary departure of Special Education or related services personnel who are replaced by qualified, lower salaried staff;
- Decrease in student enrollment for children with disabilities;
- Termination of a special education program that is due to the out of state movement of the student, no longer eligible, or no longer requires the special education services; and
- Termination of costly expenditures for long-term purchases, such as the acquisition of equipment or the construction of facilities.

Historically, the District has been able to contain Special Education costs relatively well, keeping an emphasis on efficiency, and maximizing the use of Special Education dollars to result in the best programs for students. Special Education costs are now growing. One contributing factor is a shift in the number of students with needs that are difficult and expensive to serve. If the District lacks the ability to provide services, such as live-in care, it must look to outside sources to fill these needs for students.

The proportion of students with autism and emotional disturbances has increased over the past few years. Oakland students with autism increased from 129 students in June of 2001 to 297 students in June of 2008. There were 437 emotionally disturbed students in June of 2001. This figure reached a peak in June of 2006 at 536 students, but had dropped to 506 students by June of 2008. OUSD has little control over the placement, and thus the costs of serving, the students in this group. Up to 90% of these students are identified and placed by the Alameda County’s mental health services.

The largest group of Special Education students in Oakland is students with specific learning disabilities, with 2,459 students at the close of the 2007-08 school year. Many of these students are served in OUSD programs, but require special staff, such as speech therapists. A national shortage of speech therapists have driven the costs of speech therapy up, and made it difficult for the District to attract and retain these employees. As a result, the District must contract with outside agencies and private schools to provide the bulk of speech therapy services, as well as other services for Special Education students.

Recent data trends for the cost of these Non Public Agencies and Schools (NPA/S) to the District are as follows:

Fiscal Year	NPA/S Expenditures
2004-05	\$ 15,014,555
2005-06	\$ 13,263,821
2006-07	\$ 15,192,873
2007-08	\$ 18,524,150

As the District’s enrollment has continued to decline over the last four years, Special Education SDC enrollment has grown from 1,351 to 1,604 students. NPA/S expenditures reached a low point in 2005-06, but since then

they have seen significant increase. The District has been researching different strategies to control these escalating costs. It is projected that the total NPA/S expenditures will be around \$13,000,000 for the 2008-09 fiscal year.

In 2008, OUSD's Programs for Exception Children (PEC) has increasingly partnered with neighboring SELPAs to take advantage of economies of scale. In partnership with North County SELPA, PEC recently renegotiated its transportation contracts. PEC also participates in a Bay Area alliance of SELPAs for contract negotiation with NPA/S. The consortium of SELPAs is often able to bargain for more favorable contract terms. The District gives preference to NPA/S organizations that have contracts with the consortium.

Recommendations

Strengthen operational controls for PEC. Conduct a detailed review of all NPA/S contracts and financial management by program. The contract review should include an analysis of the quality and effectiveness of service, as well as a review of terms and rates.

Move students to District programs. Work to decrease the number of students in NPA/S programs by developing norms, policies, and procedures to facilitate a return of non-public students to school based programs. Augment early intervention to avoid initial referrals and develop additional programs to recover NPA/S referrals to the District.

Invest resources in recruiting speech therapists. A national shortage of speech therapists has forced the District to use expensive agencies. Employment packages for speech therapists should be evaluated so the District may attract and retain therapist and build capacity.

Redistribute human capital. Consider a redesign of the assignments for resource specialists and instructional aides within Special Education programs.

Support cost claim settlement. Support signing of mandated cost claim settlement that will release additional Special Education funds in the 2009-10 academic year.

Revisit ADA reporting. Review and revise the attendance reporting process for students served under NPA/S contracts.

Reduce the Number of Central Office General Purpose Fund Hires

Overview

School districts facing declining enrollment struggle with being able to reduce Central Office or administrative expenses in sync with the reduction of school-based expenses.

In order to better account for the District's declining enrollment and keep appropriate ratios of administrative employees to school-based employees, it is critical to monitor and reduce the number of Central Office positions funded by General Purpose (GP) dollars.

Analysis

The number of full time employees funded by GP dollars has decreased over the past three years. The table below illustrates this trend.

Year	2006	2007	2008
Central	322 FTEs	311 FTEs	501 FTEs
School	1,974 FTEs	1,925 FTEs	1,696 FTEs
Total	2,296 FTEs	2,236 FTEs	2,197 FTEs

The simultaneous jump in the number of Central Office employees with the drop in school-based employees from 2007 to 2008, is due to the shift of school custodians back to central budgets.

Recommendations

Cabinet approval for new GP hires. In order to maintain appropriate ratios of administrative expenses to school-based expenses, the senior leadership should continue to review requests to create GP staff positions within Central Office departments that are above and beyond the budgeted department staff. This process can be kept efficient through the use of a standardized review process, with managers providing detailed information regarding their request in advance of regular Cabinet meetings.

Containing Vacation and Sick Leave

Overview

One of the many advantages of working for a government agency is the benefits that an employee receives. Benefits include health insurance, vacation, and leave/sick time, among others. These benefits, while costly to the agency, are the minimum cost of entry for any organization that wishes to recruit and retain talented, capable individuals.

Along with providing valuable benefits, it is the responsibility of the agency to ensure accurate records of an individual's use of their benefits. Monitoring leave time for employees is tied directly to the fiscal sustainability of the organization.

It is vital to create a culture of consistent expectations, accountability, and transparency around the status of OUSD's employee leave time.

Analysis

Currently, OUSD implements a leave policy in accordance with Education Code and federal law requirements. However, there is a lack of coherence and consistent understanding of qualifications for leave within the District. This consistency would help to alleviate issues that arise at termination of employment.

The District carries vacation leave that has not yet been used by employees as a financial liability. Under some employment agreements, the District must pay out the value of unused vacation days to employees at the time they separate from the District. In November of 2008, the value of outstanding vacation leave as calculated by Payroll Services was \$5,330,644.43.

Current data available on school site substitutes indicate that on average, a school-site employee is out sick for eight days in a 10-month period. This is a high rate of sick leave and should be more the exception rather than the rule.

Recommendations

Monitor employee leaves. Payroll Services tracks extended leaves including, but not limited to, extended leave, leave designated under the Family and Medical Leave Act (FMLA), and catastrophic leave, as well as outstanding vacation time. Managers in all departments should intensify their focus on data concerning employee leave time, and encourage the use of vacation time when appropriate.

Create a District pool. The District should consider setting aside a portion of the unrestricted, General Fund in which OUSD employees placed on long-term leave do not negatively impact the school sites. To continue transparency in the process, the full time employee would remain at the site but will be paid from a separate program (and Org key).

Adapt IFAS to track leave. IFAS can be adjusted to automate the tracking of leave balances on a daily basis. This will allow employees to monitor their leave time online, and facilitate management of leave by departments.

Work with collective bargaining units to close offices during the holidays. Shuttering offices for additional days would result in utility savings, and require that employees use some of the stockpiled vacation leave thereby reducing the liability for the District.

Employee Health & Welfare Benefits

Overview

According to a report released by the U.S. Department of Labor in March 2008, employee benefits make up just over 30% of employers' compensation costs. This is up from 27% in 2000.¹⁹ The majority of the rise in expense is attributable to healthcare cost increases. A 2007 report by the Kaiser Family Foundation found that premiums for family health coverage have increased 78% since 2001.²⁰

For public school districts, this trend is particularly concerning for several reasons. First, a large proportion of the spending in school districts is dedicated to employee compensation. On average, a school district in California invests approximately 80% of its operating budget in salaries and benefits for its employees.²¹ Therefore, the higher the percentage of change in the cost of employee benefits from year to year, the larger the impact it will have on a school district's finances. Second, public school districts pay for the majority of the cost of the health care packages offered to employees, resulting in most of the financial burden being placed on the school district. Finally, it becomes much more difficult for a school district to effectively keep up with rising benefit costs when these increases are rising faster than inflation and/or the additional revenue received through a cost of living adjustment (COLA).²²

In OUSD, increases in benefits over the past three years have resulted in millions of dollars in additional expenses each year. The 2005 MYFRP states under recommendation #20, "the District's maximum contribution toward each qualifying employee's health care must be contained at the 2003-04 contribution level." This goal has not been achieved by the District as the percent that employees contribute to premium costs of ½ of 1 percent remains unchanged from 2003-04. As a result, the District must make the necessary trade-off decisions that ultimately contribute to long-term financial sustainability of the organization.

Analysis

Over the past five years, the cost of offering quality health and welfare benefits to employees has meant that a larger proportion of employee compensation is comprised of healthcare benefit costs. In fact, in the past three years health and welfare benefit costs have been increasing at a faster rate than COLA adjustments provided from the state as described in the table below. In some years it is twice and three times the funded COLA.

School Year	PERCENT CHANGE (%)	
	Funded COLA	Health & Welfare Benefits
2003-04	-1.20%	7%
2004-05	2.41%	8%
2005-06	4.23%	10%
2006-07	5.92%	11%
2007-08	4.53%	9%
2008-09	.68%	7.25%

¹⁹ Fletcher, Michael A. 23 March 2008. "Rising Health Costs Cut into Wages." Washington Post. Washington, DC linked to U.S. Department of Labor study released in March 2008.

²⁰ Kaiser Family Foundation.

²¹ Cite EdSource on this from state homepage.

²² In a survey of 876 school business officials nationwide, 91% responded that they either strongly agreed or agreed that the cost of healthcare was rising faster than anticipated revenues in the coming year. Association of School Business Officials. January 2006. Reston, VA.

The result of this trend is that a larger proportion of OUSD’s discretionary dollars are paying healthcare companies for rising premium costs rather than being spent on academic opportunities for students. For example, the table below shows that in 2007-08 health and welfare benefits comprised 12.2% of total compensation, versus 11.7% in 2004-05.

School Year	Total Compensation	Health & Welfare Benefits (H&W)	H&W as % of Salaries
2004-05	\$297,327,588	\$34,650,644	11.7%
2005-06	\$288,428,950	\$34,904,118	12.1%
2006-07	\$297,060,997	\$36,187,648	12.2%
2007-08	\$324,007,308	\$39,230,846	12.2%

* - This should be \$ per FTE, pull data from unaudited actual assumptions

The slow-down in the economy may result in a corresponding decrease in health and welfare cost increases for the next two years. Additionally, as District staffing ratios shrink to match declining enrollment, the overall cost of benefits for the District will decrease, as well.

Recommendation

OUSD has been active in pursuing methods to temper these rapidly rising healthcare costs over the past several years. However, more work must be done to ensure appropriate cost containment. Currently, OUSD partners with local labor unions on a Health Benefit Committee that discusses and strategizes around various ways in which to maximize benefits to OUSD employees and contain costs for the school district. Additional areas of exploration may include:

Promote the Employee Wellness Policy. The District should continue efforts to provide opportunities for employees to engage in preventative health care, offering the District an opportunity to reduce premium costs for healthcare. These programs can help the District to bargain for more favorable rates for health care.

Offer incentives for healthy behavior. The District should investigate the possibility of securing discounted gym memberships for employees.

Revisit cost containment strategies. The 2005 MYFRP recommended pursuing additional cost containment avenues such as increased office co-payments and/or reduced coverage of prescription drug benefits. The District should research and recommend opportunities to enact these strategies that would allow the redirection of discretionary dollars either to increased wages and/or enhancements in learning environments for students.

Increase transparency of the District’s health & welfare costs. Make information about the investment in these costs and decisions about how to manage costs easily accessible to employees and the community. Ensure that employees know the value of their benefits packages.

Explore opportunities to lobby for change. Statewide organizations of public agencies provide members with support in lobbying policy makers for legislation that will reduce the soaring price of health care. The District might consider splitting the cost of membership to such an organization with the employee unions.

Monthly Budget Reviews

Overview

With many demands on shrinking funding streams, OUSD cannot afford to be irresponsible or careless in the use of its limited resources. The effective allocation and use of these resources is an organization-wide responsibility that touches not just the Financial Services division of the school district, but every school and Central Office employee. The ability for administrators to effectively manage their budgets has a profound effect on the ability to implement, monitor, and evaluate programs that serve students.

Monitoring budgets and the use of resources is particularly critical for the District's restricted (categorical) resources. Through state and federal programs, the District receives a variety of resources that are designated for needs of specific student populations and programs. These monies have restrictions on how the dollars can be spent.

Typically, the District has exercised the right to carry over resources from one fiscal year to the next. Unfortunately, without timely monitoring, the District can carry over too much money and be out of compliance with federal and/or state laws.

Analysis

Assessing the tools and reports available to school and Central Office administrators, it was found that the reports provide the type and organization of data necessary to help administrators understand the financial position of the school and Central Office department. Various budget reports are updated by Financial Services and made available to different groups of administrators on a monthly basis. These reports are listed below.

Superintendent's Cabinet:

School Resource Summary – A high level report summing each resource allocated to schools, including the major object codes by adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used to date.

Central Resource Summary – A high level report summing each resource allocated to Central Office departments, including the major object codes by adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used to date.

School Site Summary Report (grouped by Network Officer) – A summary of each resource within a school site that includes the adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used to date.

Central Office Site Summary Report – A summary of each resource within a Central Office site that includes the adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used to date.

Network Executive Officers (NExOs):

School Site Summary Report (grouped by Network Officer) – A summary of each resource within a school site that includes the adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used to date.

Principals:

School Resource Detail Report – This comprehensive report provides a breakdown of each resource within the school budget by major object code groupings (e.g. 1000s, 2000s, etc.), and then by each object code (e.g. 1105 – Teacher Salaries, etc.). For each object code the line item includes the adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used.

Reports for principals are delivered each month as an email message with attachments. In addition to the School Resource Detail Reports provided each month, the Financial Services Associates (FSA) provide on-going support to principals throughout the school year. This includes fiscal analyses of potential budget changes and semi-annual site visits.

Central Office Administrators:

Central Office Resource Detail Report – This comprehensive report provides a breakdown of each resource within the Central Office budget by major object code groupings, and then by each object code. For each object code the line item includes the adopted budget, working budget, encumbrance, actual to date, unencumbered balance, and percent used.

The FSAs also provide on-going support to Central Office administrators to analyze programs and resources and adjust budgets in line with intended expenditures throughout the year.

In fall of 2008, the Budget Director began providing email notification to alert site administrators and NExOs of low or negative resource balances at school sites. The email warnings list the resources that have low or negative balances in the school budget, provide 10 working days to establish an action plan to resolve negative balances, connect the site administrator with their FSA for additional support, and outline a process for execution of the action plan.

Recommendations

Conduct Strategic Budgeting Seminars. Each new site administrator and Central Office administrator should receive training on the most critical questions to ask when reviewing a department's monthly budget report. Other topics during this training might include compliant use of categorical funds and tracking expenditures.

Require additional site administrator training. In order to continue building the capacity of site administrators to understand, monitor, and effectively use their budgets, the Budget Department recommends mandatory bi-annual budget training for all site administrators. This training can be achieved at already established meetings, such as NExO meetings, or department-specific staff meetings.

Move to a self-regulating model. Process improvements should allow site administrators to monitor spending. The ultimate goal of the Budget Monitoring process is to equip administrators with the tools and knowledge needed to plan and maintain budgets independently. All strategies in this area should support the District's aim to internalize effective resource use.

Financial Impact to District

As a result of implementing thorough monthly budget review processes, the District should expect a reduced amount of carryover funds in major, categorical resources such as Title I, Title II, EIA, TIIG, and others.

Appendices

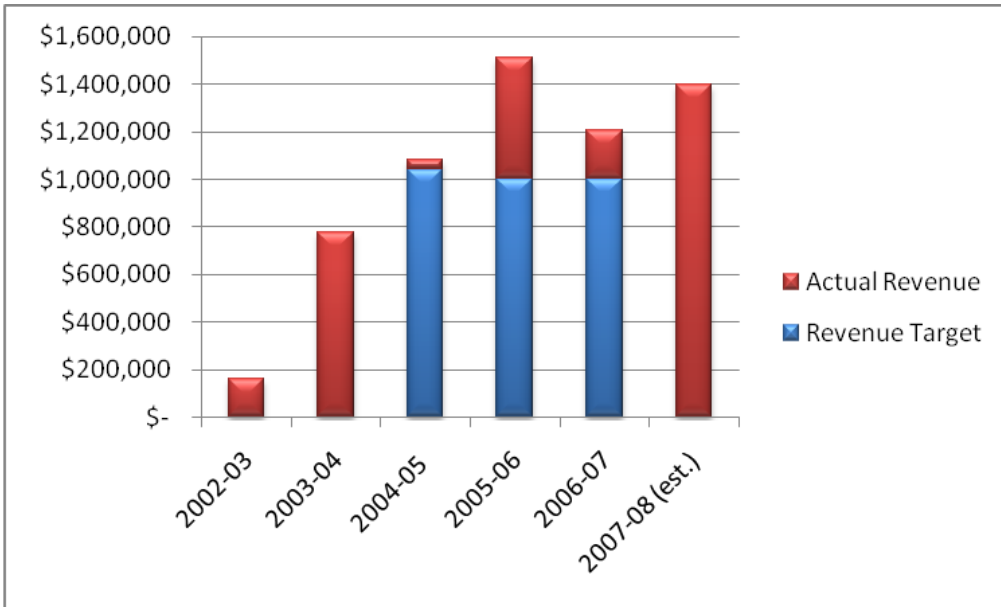
- A. Updates on Implementation of the 2005 MYFRP
- B. Revenue generated for OUSD as a result of Medi-Cal Administrative Activities (MAA) program
- C. Revenue generated for OUSD as a result of LEA Medi-Cal program
- D. Unrestricted General Fund multi-year budget projections (2004-05 to 2009-10)
- E. Restricted General Fund multi-year projections (2004-05 to 2009-10)
- F. Enrollment Projection Assumptions for OUSD, 2007-12
- G. Repayment Schedule of Child Development (Fund 12) to State Loan
- H. Repayment Schedule of Child Nutrition (Fund 13) to State Loan
- I. General Obligation (GO) bond debt service
- J. Surplus Property Disposition Checklist
- K. Performance Management Timeline

Appendix A. Updates of the 2005 MYFRP

Recommendation		Impacted Fund(s)	Targeted Financial Impact	Financial Resolution	Comments
1	Resolve audit findings from 2002-03 and 2003-04 immediately	Various	39.1 M	\$1.8 M	Resolution of audit findings - 2002-03: \$911,856 and 2003-04: \$887,029
2	Repayment of General Obligation (GO) bonds from Capital Facilities fund	Capital, General	\$16M	\$10.2M	Remaining balance of \$5.8 M to be repaid from GF over a 20 year period at an annual payment of \$304,406
3	Impose admin fee to Capital Facilities Fund to increase General Fund	Capital	\$449K	No action	
4	Charge indirect cost to RRMA	General, Restricted	\$1.1M	\$1.0M	Additional funds available to allocate in General Fund
5	Redevelopment fees pay COP debt	Capital	\$5.9M	\$5.9M	COP debt payments service payments paid from Redevelopment fees as opposed to payments being made by the General Fund.
6	Cash flow management	General	TBD	n/a	Discussed in fiscal policies and control section
7	Increase worker's compensation reserves	All	\$1M	\$9M	The District's unfunded liability is projected at approximately \$35 m. A twenty year plan has been developed to increase the District reserves to this level. The reserves have been raised from \$1 million in 2003-04 to \$4 million in 2005-06. The current 2007-08 reserve is projected at \$9 million
8	Distribute retiree costs across funds	All	TBD	Research in Progress	Dollars distributed across multiple funds including the General Fund
9	Decrease special education transportation encroachment	General, Restricted	\$1.1M	\$1M	Decrease in special education encroachment, 2004-05 to 2006-07
10	Increase MAA reimbursement claims above 2003-04 base	General, Unrestricted	\$3.1M	\$3.8M	Claimed revenue between 2004-05 and 2006-07; unrestricted revenue
11	Increase LEA medical billing above 2003-04 base	General, Restricted	\$700K	\$1.1M	Claimed revenue between 2004-05 and 2006-07; restricted revenue
12	Claim special education extended year apportionment for prior years	General	TBD	Research in Progress	
13	Sell or lease surplus property	General	TBD	\$0	District staff researched the feasibility of selling the second street administration building to pay off the state emergency loan. It was recommended that no action be taken.
14	School safety officers paid by restricted state and Measure E allocation	General, Restricted	\$8.2M	\$8.2M	
15	Repayment of state loan from Fund 12	Fund 12	\$1.1 M	\$57.2 K	Increase in General Fund revenue by having Child Development fund to pay their fair share of the state emergency loan. \$57 K annually for 20 years.
16	Repayment of state loan from Fund 13	Fund 13	\$4.1 M	\$207 K	Increase in General Fund revenue by having Child Nutrition fund to pay their fair share of the state emergency loan. \$207 K annually for 20 years.
17	Student information system supported by State School Building Fund	Fund 30	\$819K	Research in Progress	

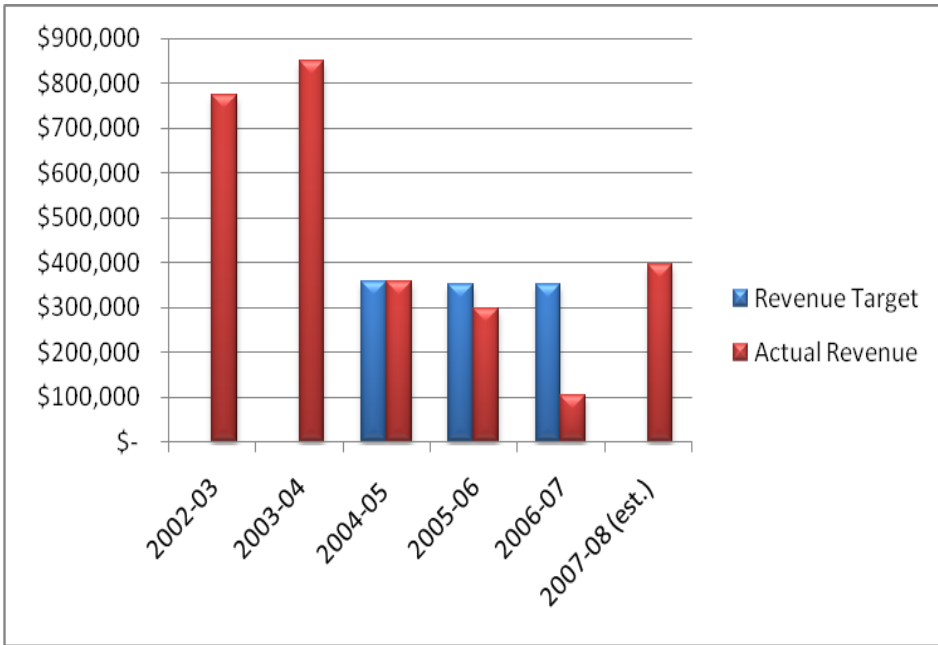
18	E-rate telecommunications discounts and funding commitments	General	\$4.1M	Research in Progress	
19	Maintain health and welfare (H&W) benefits at 2004-05	General	\$0	Research in Progress	Increase in H&W benefits between 2004-05 and 2006-07
20	Reduction in General Fund expenditures	General	\$9.2M	\$7.5M	Decrease in General Fund expenditures between 2004-05 and 2005-06
21	Retain meals for needy revenue in General Fund	General	\$1.2M	\$1.1M	
22	Freeze Central Office vacancies	General	\$675K	Research in progress	
23	Recapture SELPA fees from other school districts	General	\$900K	\$612K	
24	Restructure debt to reduce interest	General	TBD	\$800K	Refunding conducted in June 2007
25	Enhance IFAS system	General	\$7M	\$2M	Dollars invested in IFAS system from state emergency loan. \$5 M still available.

Appendix B. Revenue generated for OUSD as a result of Medi-Cal Administrative Activities (MAA) program



Note: The federal government may consider discontinuing this revenue source. The District should closely monitor the decisions of Congress regarding MAA reimbursements.

Appendix C. Revenue generated for OUSD as a result of LEA Medi-Cal program



Appendix D. Unrestricted General Fund multi-year budget projections (2004-05 to 2009-10)

	Object Code	Historical			Current	Projected	
		Unaudited Actuals	Unaudited Actuals	Unaudited Actuals	Second Interim	Projected	Projected
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
A. Revenues							
1. Revenue Limit Sources	8010-8099	210,420,143	208,324,519	211,384,817	207,289,356	199,728,203	201,170,384
2. Federal Revenues	8100-8299	274,235	106,342	148,417		0	0
3. Other State Revenue	8300-8599	21,839,856	19,520,378	27,949,215	23,989,434	22,422,457	24,878,524
4. Other Local Revenue	8600-8799	21,997,434	25,603,235	28,716,146	26,149,810	21,766,322	21,766,322
5. TOTAL REVENUE	8010-8799	254,531,668	253,554,474	268,198,595	257,428,600	243,916,982	247,815,230
B. Expenditures							
1. Certificated Salaries	1000-1999	119,499,545	114,624,984	112,257,840	111,329,189	109,912,204	110,578,553
2. Classified Salaries	2000-2999	24,839,024	25,738,310	28,594,639	33,276,317	29,319,208	28,678,401
3. Employee Benefits	3000-3999	47,373,907	46,512,763	47,273,427	49,228,666	44,442,448	45,120,146
4. Books and Supplies	4000-4999	6,136,266	7,541,833	8,167,218	9,146,045	6,887,015	6,955,993
5. Services, Other Operating	5000-5999	17,314,199	24,251,650	26,284,613	30,072,664	26,096,849	26,138,563
6. Capital Outlay	6000-6999	74,079	1,786,771	2,151,131	597,419	1,907,731	1,571,144
7. Other Outgo (excludes B8)	7100-7499	10,139,132	14,360,836	22,103,746	10,488,153	10,393,369	10,393,369
8. Indirect/Direct Support Costs	7300-7399	(4,970,458)	(7,354,243)	(8,034,642)	(10,448,436)	(10,105,685)	(9,799,344)
9. TOTAL EXPENDITURES	1000-7499	220,405,693	227,462,904	238,797,971	233,690,016	218,853,140	219,636,825
C. Operating Excess / (Deficiency)							
Excess / (Deficiency of Revenues over Expenditures before Other Financing Resources & Uses	8100 – 8799 less 1000-7499	34,125,975	26,091,571	29,400,624	23,738,583	25,063,842	28,178,405
D. Other Financing Sources / Uses							
1. Interfund Transfers							
a. Transfers In	8910-8929	177,297	321,291	2,301,746	3,624,194	3,624,194	3,624,194
b. Transfers Out	7610-7629	(1,654,592)	(1,434,777)	(34,045,126)	(1,356,951)	(1,356,951)	(1,356,951)
2. Other Sources / Uses							
a. Sources	8930-8979			35,715,629	709,991	709,991	709,991
b. Uses	7630-7699						
3. Contributions	8980-8999	(24,473,008)	(23,488,120)	(25,805,247)	(27,370,821)	(30,787,591)	(30,787,591)
4. TOTAL OTHER FINANCE		(25,950,303)	(24,601,606)	(21,832,998)	(24,393,587)	(27,810,357)	(27,810,357)
E. Net Increase / (Decrease) in Fund Balance							
Net Increase / (Decrease) in Fund Balance (C + D4)		8,175,672	1,489,965	7,567,626	(655,004)	(2,746,515)	368,047
F. Fund Balance, Reserves							
1. Beginning Fund Balance							
a. As of July 1 – Unaudited	9791	(3,971,506)	5,557,612	7,359,762	17,218,714	17,716,080	14,969,565
b. Audit Adjustment	9793			(214,458)	0		
c. As of July 1 – Audited							
d. Other Restatements	9795	1,353,446	312,185	2,505,784	1,152,369		
e. Adjusted Beginning Balance				9,651,088	18,371,084		
2. Ending Balance, June 30		5,557,612	7,359,762	17,218,714	17,716,080	14,969,565	15,337,612
a. Reserves for							
i. Revolving Cash	9711	167,358	150,000	150,000		150,000	150,000
ii. Stores	9712						
iii. Prepaid Expenditures	9713						
iv. All Others	9719						
v. General Reserves	9730						
vi. Legally Restricted Balance	9740						
b. Designated Accounts							
i. Economic Uncertainties	9770	2,146,206	3,196,914	13,064,233		8,237,858	8,278,391
ii. Unrealized Investment Gains	9775						
iii. Other Designations	9780	3,244,048	4,012,848	4,222,061		6,017,328	6,017,328
c. Undesignated Amount	9790			(217,580)	17,716,080	564,379	891,893
d. Unappropriated Amount	9790			(217,580)	17,716,080	564,379	891,893

Appendix E. Restricted General Fund multi-year projections (2004-05 to 2009-10)

	Object Code	Historical			Current	Projected	
		Unaudited Actuals	Unaudited Actuals	Unaudited Actuals	Second Interim	Projected	Projected
		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
A. Revenues							
1. Revenue Limit Sources	8010-8099	10,962,382	10,563,394	10,696,729	10,726,115	10,869,095	10,726,917
2. Federal Revenues	8100-8299	63,145,103	54,145,792	54,883,248	67,555,949	59,841,000	58,644,180
3. Other State Revenue	8300-8599	76,274,687	71,446,492	93,781,818	105,588,146	95,936,000	94,976,640
4. Other Local Revenue	8600-8799	5,918,579	11,462,806	12,799,126	16,044,786	7,399,209	5,399,209
5. TOTAL REVENUE	8010-8799	156,300,752	147,618,484	172,160,921	199,914,997	174,045,304	169,746,946
B. Expenditures							
1. Certificated Salaries	1000-1999	48,211,591	46,255,544	52,288,623	63,434,044	53,079,144	53,765,136
2. Classified Salaries	2000-2999	28,860,443	27,829,629	27,812,802	32,845,446	25,064,084	26,211,880
3. Employee Benefits	3000-3999	28,543,078	27,467,720	28,833,668	33,893,645	32,781,243	35,262,526
4. Books and Supplies	4000-4999	21,561,532	15,805,848	21,416,722	37,727,854	23,348,905	22,029,602
5. Services, Other Operating	5000-5999	44,667,129	44,456,108	49,747,446	68,938,113	50,551,276	48,757,502
6. Capital Outlay	6000-6999	256,393	359,939	276,745	541,033	312,825	298,731
7. Other Outgo (excludes B8)	7100-7499	1,716,071	1,698,164	3,757,352	3,011,169	3,011,169	3,011,169
8. Indirect/Direct Support Costs	7300-7399	3,418,125	(4,772,124)	5,548,030	7,233,131	6,819,214	6,612,498
9. TOTAL EXPENDITURES	1000-7499	177,234,362	168,645,076	189,681,387	247,624,436	194,967,860	195,949,044
C. Operating Excess / (Deficiency)							
Excess / (Deficiency of Revenues over Expenditures before Other Financing Resources & Uses	8100 – 8799 less 1000-7499	(20,933,610)	(21,026,592)	(17,520,466)	(47,709,440)	(20,922,556)	(26,202,099)
D. Other Financing Sources / Uses							
1. Interfund Transfers							
a. Transfers In	8910-8929	2,135,128	1,982,193	2,060,010	2,093,782	2,093,782	2,093,782
b. Transfers Out	7610-7629	(3,176,242)	(3,213,808)	(2,339,133)	(2,093,782)	(2,093,782)	(2,093,782)
2. Other Sources / Uses							
a. Sources	8930-8979						
b. Uses	7630-7699						
3. Contributions	8980-8999	24,473,008	23,488,120	25,805,247	27,370,821	30,737,591	30,737,591
4. TOTAL OTHER FINANCE		23,431,894	22,256,505	25,526,125	27,370,821	30,737,591	30,737,591
E. Net Increase / (Decrease) in Fund Balance							
Net Increase / (Decrease) in Fund Balance (C + D4)		2,498,284	1,229,913	8,005,659	(20,338,618)	9,815,035	4,535,492
F. Fund Balance, Reserves							
1. Beginning Fund Balance							
a. As of July 1 – Unaudited	9791	15,816,336	16,145,047	18,736,383	25,928,362	5,663,321	15,478,356
b. Audit Adjustment	9793						
c. As of July 1 – Audited					25,928,362		
d. Other Restatements	9795	(2,169,572)	1,361,423	(696,596)	73,577		
e. Adjusted Beginning Balance		13,646,764		18,039,787	26,001,940		
2. Ending Balance, June 30		16,145,047	18,736,383	26,045,446	5,663,321	15,478,356	20,013,848
a. Reserves for							
i. Revolving Cash	9711						
ii. Stores	9712						
iii. Prepaid Expenditures	9713						
iv. All Others	9719						
v. General Reserves	9730						
vi. Legally Restricted Balance	9740	16,145,047	18,736,383	26,045,446		15,478,356	20,013,848
b. Designated Accounts							
i. Economic Uncertainties	9770						
ii. Unrealized Investment Gains	9775						
iii. Other Designations	9780						
c. Undesignated Amount	9790				5,663,321	0	0
d. Unappropriated Amount	9790				5,663,321	0	0

Appendix F. Enrollment Projection Assumptions for OUSD, 2007-12

NOTE: Will be updated with 2008-09 enrollment analysis.

	Low Forecast	Medium Forecast	High Forecast
1. Enrollment base	Same as Medium forecast	Historical CBEDS enrollments from CDE	Same as Medium forecast
2. Grade progressions (impact from housing turnover)	The Medium Forecast's grade progressions reduced by 97% and 99%	The most current set of grade progressions between Fall 2006 and Fall 200	The Medium Forecast's grade progressions increased by 101%, 103%, and 105%
3. Kindergarten to Birth ratio	Continues at 65%, gradually declining to 63%	The most recent K/B ratio (66%)	Increases to 68%
4. Housing forecast	Same as Medium forecast	Explicit housing forecasts provided for: Lions Crossings, Leona Quarry, Uptown Project, Fruitvale Transit Village II, Seven Directions, and Wood Street Project	Same as Medium forecast
5. Student yields	0.4 for BMR units; 0.05 for SFU; 0.05 for MFU; 0 for condos; 0 for general market rate unit	0.7 for Below Market Rate (BMR); 0.1 for Single Family Units (SFU); 0.1 for Multiple Family Units (MFU); 0.02 for condos; 0.02 for general market rate units	0.7 for BMR units; 0.15 for SFU; 0.15 for MFU; 0.05 for condos; 0.05 for general market rate units
6. Charter enrollment forecast	Annual charter growth of 12% The share of charter enrollment reaches 31% of total enrollment	Annual charter growth of 7% The share of charter enrollment reaches 25% of total enrollment	Annual charter growth of 4% The share of charter enrollment reaches 22% of total enrollment

Summary of Long Term Enrollment Trends:

- Projections for future district enrollment decline (2008-2012) are based of the following factors:
 - Continuation of low grade progressions between 5th and 6th grade; low grade progressions in high school grades
 - Fewer elementary students progressing to middle and high schools

- Lower Kindergarten to Birth ratio; fewer students enrolling in Kindergarten 5 years after birth

- Future district enrollments are dependent on charter enrollment
 - The District's loss of 842 students between 2006 and 2007 is due in part to the relatively low growth of charter enrollment (4%) in 2007. This was due in part to the closure of UPrep
 - The low district enrollment projection scenario corresponds with a high annual growth (12%) of charter enrollment
 - Preliminary charter enrollment for 2008 projects a 13% increase

- Slowdown of sales in the housing market
 - Fewer students are anticipated from new housing developments

Appendix G. Repayment Schedule of Child Development (Fund 12) to State Loan

School Year	Payment	Remaining Balance	Comments
		\$1,144,484	
2005-06	\$57,224	\$1,087,240	Paid
2006-07	\$57,224	\$1,030,036	Paid
2007-08	\$57,224	\$972,812	Paid
2008-09	\$57,224		Scheduled
2009-10	\$57,224		Scheduled
2010-11	\$57,224		Scheduled
2011-12	\$57,224		Scheduled
2012-13	\$57,224		Scheduled
2013-14	\$57,224		Scheduled
2014-15	\$57,224		Scheduled
2015-16	\$57,224		Scheduled
2016-17	\$57,224		Scheduled
2017-18	\$57,224		Scheduled
2018-19	\$57,224		Scheduled
2019-20	\$57,224		Scheduled
2020-21	\$57,224		Scheduled
2021-22	\$57,224		Scheduled
2022-23	\$57,224		Scheduled
2023-24	\$57,224		Scheduled
2024-25	\$57,224		Scheduled
Total	\$1,144,484		

Appendix H. Repayment Schedule of Child Nutrition (Fund 13) to State Loan

School Year	Payment	Remaining Balance	Comments
		\$4,136,854	
2005-06	\$206,843	\$3,930,011	Paid
2006-07	\$206,843	\$3,723,168	Paid
2007-08	\$206,843	\$3,516,325	Paid
2008-09	\$206,843		Scheduled
2009-10	\$206,843		Scheduled
2010-11	\$206,843		Scheduled
2011-12	\$206,843		Scheduled
2012-13	\$206,843		Scheduled
2013-14	\$206,843		Scheduled
2014-15	\$206,843		Scheduled
2015-16	\$206,843		Scheduled
2016-17	\$206,843		Scheduled
2017-18	\$206,843		Scheduled
2018-19	\$206,843		Scheduled
2019-20	\$206,843		Scheduled
2020-21	\$206,843		Scheduled
2021-22	\$206,843		Scheduled
2022-23	\$206,843		Scheduled
2023-24	\$206,843		Scheduled
2024-25	\$206,843		Scheduled
Total	\$4,136,854		

Appendix I. General Obligation (GO) bond debt service

Name	Dated Date	MEASURE C Original Par	MEASURE A Original Par	MEASURE B Original Par	Total Principal Outstanding	Interest Rate	Final Maturity	Comments
Series A	5/23/1995	\$ 12,200,000			\$ -		8/1/2019	REFUNDED
Series A	5/23/1995	18,315,640			-		8/1/2019	REFUNDED
Series B	7/30/1997	9,999,977			-	5.18%	8/1/2022	REFUNDED
Series C	5/20/1998	27,045,000			-	5.08%	8/1/2019	REFUNDED
Series C	5/20/1998	8,916,738			-	5.34%	8/1/2012	REFUNDED
Series D	5/20/1998	5,999,277			-	5.40%	8/1/2022	REFUNDED
Series E	5/1/1999	10,000,000			-	5.09%	8/1/2023	REFUNDED
Series F	4/1/2000	75,000,000			3,735,000	5.85%	8/1/2024	PARTIALLY REFUNDED
Series 2001	6/1/2001	38,215,107			400,398	5.10%	8/1/2025	Issued as one series; PARTIALLY REFUNDED
Series 2001	6/1/2001		61,999,893		649,602	5.10%	8/1/2025	
Series 2002	8/1/2002		100,000,000		97,030,000	4.92%	8/1/2026	
Series 2005	8/31/2005		141,000,000		140,200,000	4.38%	8/1/2030	
Series 2006	11/28/2006			130,000,000	122,735,000	4.45%	8/1/2031	
Series 2008	8/1/2008			150,000,000		5.25%	8/1/2033	Estimate
Series 2010	8/1/2010			155,000,000		5.50%	8/1/2035	Estimate
Issued		\$ 205,691,738	\$ 302,999,893	\$ 130,000,000				
To be Issued				\$ 305,000,000				
2007 Refunding	8/1/2007				199,240,000	4.48%	8/1/2025	
TOTAL OUTSTANDING					\$ 563,990,000			

Appendix J. Surplus Property Disposition Checklist
(begins on next page)

CONFIDENTIAL – PRIVILEGED
ATTORNEY/CLIENT COMMUNICATION
SURPLUS PROPERTY DISPOSITION
CHECKLIST OVERVIEW¹

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
I. PRELIMINARY EVALUATION		
<p>1. Board appoints a 7-11 Committee (Ed. Code, § 17388).</p> <p>Committee’s purpose: advise the Board in developing District-wide policies and procedures in the use or disposition or school buildings or space not needed for school purposes (Ed. Code, §§17387, 17388). A Committee may be formed for multiple or single potential surplus property evaluations, but the Committee must evaluate District-wide issues even if formed regarding a single site.</p>		
<p>2. Committee may consist of 7 to 11 members (Ed. Code, § 17389).</p>		

¹ This document provides a general overview and summary of the process required for the District to sell or lease surplus property, and is not intended to address all legal requirements. This overview also does not discuss other options such as joint use, joint venture or other possible alternatives.

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>3. Committee members must be representative of each of the following (Ed. Code, § 17389):</p> <ul style="list-style-type: none"> (a) Ethnic, age group, and socio-economic composition of the District; (b) Business community (store owners, managers or supervisors); (c) Teachers; (d) Landowners or renters (preference to neighborhood association representatives); (e) Administrators; (f) Parents of students; and (g) Persons with expertise in environmental impact, legal contracts, building codes, land use planning (including local zoning and land use restrictions). 		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>4. Committee's duties:</p> <ul style="list-style-type: none"> (a) Review the projected school enrollment and other data provided by the District to determine the amount of surplus space and real property; (b) Establish a priority list of use of surplus space and real property that will be acceptable to the community; (c) Cause to have circulated throughout the attendance area the priority list and provide for hearings of community input on acceptable uses, including sale or lease for child care development purposes per Education Code section 17458); (d) Make a final determination of limits of tolerance of use; and (e) Provide a report to the Board recommending a determination of whether real property is surplus space and real property (Ed. Code, § 17390). 		
<p>5. Committee Report should include:</p> <ul style="list-style-type: none"> (a) A determination highest and best use of property based, in part, on consultation with local zoning authorities to determine potential permissible uses; (b) Information based on a District-obtained appraisal of the property to assist in determination of the most profitable use and fair market value (Optional); and (c) Information based on a District-obtained title report to evaluate the effect of any restrictions, covenants or reversionary clauses (Optional). 		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
6. Consider recommendations of Committee and Adopt Resolution regarding intended disposition of real property, if any.		
II. OFFERS TO PUBLIC ENTITIES		
1. District must provide notice to the local planning commission of its intent to sell or lease the property (Gov. Code, § 65402).		
2. <u>Child Care Development Agencies (Optional)</u> : Offer property for sale or lease to a contracting agency as defined in Education Code section 8208 for exclusive delivery of child care and development services for a period of not less than 5 years. (Ed. Code, § 17458).		
3. <u>Vacant Classrooms</u> : If the District intends to lease vacant classrooms, Board must first adopt Resolution of Intention and offer the classrooms to special education programs provided by other districts within its SELPA or by the county office of education (See Ed. Code, § 17465). After following the procedures set forth in Education Code section 17465, the District may proceed to Section III (Public Bidding).		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>4. <u>Recreational Property</u>: If all or a portion of the property consists of land that has been used for at least 8 years for playground, playing fields, or other outdoor recreational purposes and is open space particularly suited for recreational purposes, the sale or lease must be treated in accordance with the Naylor Act (Ed. Code, § 17485, et seq.):</p> <ul style="list-style-type: none"> (a) Offer for sale or lease to the city, any park or recreational district, any regional park authority, or the county in which the land may be situated (Ed. Code, § 17489); (b) Maximum sale price: cost of acquisition, adjusted by the consumer price index, plus cost of any improvement to the open space portion of the land made by the District since acquisition; (c) Minimum sale price: 25% of fair market value; (d) Lease rate: annual rate may not exceed 1/20th of the maximum sale price (Ed. Code, § 17491); (e) Maximum acreage: Not more than 30% of the total surplus school acreage (Ed. Code, § 17499). 		
<p>5. Make written offer for sale or <u>lease with option to purchase</u> for park, recreational or open space purposes (if the property is suited for such purposes) as follows:</p> <ul style="list-style-type: none"> (a) To any park or recreation department of the city and county in which the property is situated; (b) To any regional park authority with jurisdiction over the property; and (c) To any applicable State Resource Agency (Ed. Code, § 17464, subd. (a), Gov. Code, § 54220). 		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>6. Offer for sale or <u>lease with option to purchase</u> at fair market value:</p> <p>(a) In writing and mailed no later than the date of the second publication notice (see (b)) to the following:</p> <ul style="list-style-type: none"> i. Director of General Services; ii. UC Regents; iii. Trustees of the CSU; iv. City in which property is located; v. County in which property is located; vi. Public housing authority in the county where property is located (Ed. Code, § 17464, subd. (b)(1)) <p style="text-align: center;"><u>and</u></p> <p>(b) By public notice addressed to any public district, public authority, public agency, public corporation, or any other political subdivision in the state, federal government, and to nonprofit charitable corporations by:</p> <ul style="list-style-type: none"> i. Publication of notice of intent to sell or lease the property in a newspaper of general circulation in the District once a week for 3 successive weeks. <p>(c) Any public entity has 60 days from the date of the third publication to notify the District of its intent to purchase or lease the property.</p> <p>(d) If the parties do not agree on mutually satisfactory terms, the District may proceed to public bidding of the property. If the District receives offers from more than one public agency, the Board may exercise its discretion to determine which offer to accept and may negotiate the terms of acceptance (Ed. Code, § 17464, subd. (b)(2)).</p>		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
III. PUBLIC BIDDING SALE OR LEASE OF SURPLUS PROPERTY		
<p>1. Before ordering the sale or lease of any property, the Board must adopt, at a regularly scheduled public meeting, a declaration of intention to sell or lease surplus property by a 2/3 vote of all board members (Ed. Code, § 17466).</p>		
<p>2. Resolution of Intention to Sell or Lease Surplus Property must include (Ed. Code, § 17466):</p> <ul style="list-style-type: none"> (a) Description of property proposed to be sold or leased; (b) Minimum sale price or rental (based on appraisal, use, zoning considerations); (c) Terms and conditions of sale; (d) Commission or rate, if any, the District will pay licensed real estate broker out of the minimum sale price or rental (Ed. Code, § 17468); and (e) Time and place in which sealed bids will be received and considered by the Board. <ul style="list-style-type: none"> i. The bid opening must be at least 3 weeks after the date on which the Board adopted the Resolution of Intention. ii. Before finalizing bid documents, consider conferences with prospective bidders to determine what terms and conditions may be acceptable on the open market. 		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>3. If the property is to be sold, the District must send notice of the public meeting at which the Resolution of Intention will be considered by certified mail to the previous owner of the property at least 60 days prior to the public meeting (Ed. Code, § 17470).</p>		
<p>4. Give notice of the adoption of the Resolution of Intention and the time and place of holding the public meeting/bid opening:</p> <ul style="list-style-type: none"> (a) Post copies of the Resolution signed by at least a majority of the Board in 3 public places in the District, not less than 15 days before the date of the meeting; and (b) Publish the notice not less than once a week for 3 successive weeks in a newspaper of general circulation in the District (Ed. Code, § 17469). 		

<u>ACTION/AUTHORITY</u>	<u>TARGET DATE</u>	<u>DATE COMPLETED</u>
<p>5. At the time and place of the public meeting established by the Resolution of Intention:</p> <ul style="list-style-type: none"> (a) All sealed proposals that have been received by the District shall, in public session, shall be opened, examined, and declared by the Board (Ed. Code, § 17473); (b) After opening the written bids, the Board must call for oral bids and consider oral bids at least 5% above the highest written bid (Ed. Code, § 17473); (c) The highest bid conforming bid made by a responsible bidder must be accepted unless the Board rejects all bids (Ed. Code, §§ 17472, 17473, 17476). (d) An oral bid may not be accepted before it is reduced to writing (Ed. Code, § 17473). (e) The Board may accept the winning bid immediately or within 10 days (Ed. Code, § 17475). (f) Acceptance and award must be done with a Resolution of Acceptance, which shall direct the Board President (or other presiding officer, or a specified member) to execute a deed or lease and deliver it upon performance of terms and conditions precedent (Ed. Code, § 17478). 		

Appendix K. Performance Management Timeline

