



Alameda County Office of Education

L. Karen Monroe
Superintendent

Gary Jones
Associate Superintendent

BOARD OF EDUCATION

Joaquin Rivera
Trustee Area 1

Amber Childress
Trustee Area 2

Ken Berrick
Trustee Area 3

Aisha Knowles
Trustee Area 4

Fred Sims
Trustee Area 5

Eileen McDonald
Trustee Area 6

Yvonne Cerrato
Trustee Area 7

January 17, 2017

James Harris, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2016-17 First Interim Report

Dear President Harris:

In accordance with Education Code Section 42127, we have examined the First Interim Report of Oakland Unified School District for fiscal year 2016-17 to determine if it complies with the Criteria and Standards adopted by the State Board of Education, and if it allows the District to meet its financial obligations in the current and two subsequent fiscal years.

Based on our review and analysis, we are satisfied that the First Interim Report approved by the District's Governing Board on December 14, 2016 accurately reflects the current financial status of the District and is consistent with the State's Criteria and Standards. However, based on the concerns outlined below, we have modified the District's positive certification to a qualified status, underscoring the importance for the District to implement necessary budget balancing solutions in 2016-17 and beyond.

Declining Enrollment

Enrollment figures projected in the Adopted Budget fell short of expectations. Based on the District's subsequent CALPADS enrollment figures, the lower ADA projection at First Interim appears reasonable. However, the reduction from the Adopted Budget has had an adverse impact on the District's revenue projections, and expenditures do not appear to have been adjusted accordingly in 2016-17. Should the District continue to experience declining enrollment beyond the current year, contingency plans should be in place to ensure budgetary alignment.

Special Education Expenditures

The District reports an anticipated contribution from the Unrestricted General Fund of approximately \$52M for Special Education. And while this amount is

313 W. Winton Ave.
Hayward, California
94544-1136

(510) 887-0152

www.acoe.org

comparable to 2015-16, both the District and the Alameda County Office of Education (ACOE) expect the projected contribution to be higher at the close of 2016-17. This is causing increasing pressure on the Unrestricted General Fund, and we encourage the District to monitor this program closely to identify any potential cost savings.

Deficit Spending

The District projects to deficit spend \$12.6M in 2016-17 and \$8.2M in 2017-18, including an anticipated \$10.2M reduction in staffing. While the District does not project a continuation of this trend in 2018-19, it does anticipate making additional expenditure reductions. We recognize that, of the deficit in 2016-17, the impact to the Unrestricted General Fund is limited to \$1M, as a healthy Restricted ending fund balance has been carried over from the prior year.

Should the District not make the necessary reductions, it may not meet the 2% minimum reserve on the Multiyear Projection. We encourage the District to continue to plan for expenditure adjustments and/or revenue enhancements in future years that will allow the District to operate within its revenue stream and fully support expenditures.

Reserves

While the District is able to meet its Reserve for Economic Uncertainties of 2%, it is unable to meet its additional local reserve requirement. And although this is not a primary factor in determining the District's immediate fiscal health, we continue to strongly support maintaining a higher reserve. Both the economic landscape in California and the nation remain uncertain, and the outlook for federal and state revenues is increasingly unpredictable. Indeed, the Governor's January Budget Proposal suggests that, after a number of years of strong growth in funding the LCFF implementation, overall K-12 funding for 2017-18 will essentially be flat.

Cash Flow Concerns

Although the State has reduced its reliance on apportionment deferrals, we continue to encourage all districts to closely monitor their cash flow throughout the fiscal year. Maintaining reserve levels greater than the required minimum is critical to ensuring a district can adequately meet payroll and other obligations.

The District currently has a \$26M temporary loan for cash availability purposes from the County Treasurer. This occurred in November 2016 and is due for repayment in May 2017 from property tax receipts. While temporary loans for cash sufficiency purposes are not uncommon, an increase in the District's reserve, as mentioned above, will assist in reducing this need in future years.

We recognize the District is in active discussions with its stakeholders to determine how to most appropriately reduce expenditures, while maintaining District priorities and protecting vital educational needs. As this process continues, we are hopeful that a balanced budget for 2016-17,

January 17, 2017

2017-18 and beyond will be a central focus of the District's efforts. We look forward to seeing these outcomes reflected in the upcoming Second Interim Report, and to returning the District to a positive certification status in the near future.

We want to acknowledge and express our appreciation to Vernon Hal and the District staff, the Governing Board, and the community for their continued diligence and dedication. If you have any questions or concerns regarding our review process, please feel free to contact our office.

Sincerely,



L. Karen Monroe, Superintendent
Alameda County Office of Education

LKM:jp

cc: Board of Education, Oakland USD
Antwan Wilson, Superintendent, Oakland USD
Vernon Hal, Senior Business Officer, Oakland USD
Gloria Gamblin, Chief Financial Officer, Oakland USD
Carlene Naylor, State Trustee, Oakland USD
Tom Torlakson, State Superintendent of Public Instruction, CDE
Peter Foggiano, School Fiscal Services Director, CDE
Jeffrey B. Potter, Executive Director, ACOE
Shirene Moreira, Director, ACOE