



**OAKLAND UNIFIED
SCHOOL DISTRICT**

Community Schools, Thriving Students

Budget and Finance Committee Update

October 25, 2017



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Budget and Finance Committee Updates

- At the 10/11 Board meeting, Budget and Fiscal Committee was charged with working with staff to further detail out scope and need for 17-18 mid-year budget reductions
- Committee met for 6.5 hours last week (10/16 and 10/19)
- Focused on understanding “bigger picture” in order to make better decisions in current year
- **Key Outcome:** Committee identified priorities to ensure fiscal solvency and stability in near term, but more information is needed before Committee can make firm recommendations for 17-18 year
- **Goal of presentation:** Provide updates to Board of Education, answer questions of work to date, gather feedback, and identify immediate next steps and timeline prior to resolution on 11/8

Review: 10/11 - First Budget Revision

Following the Closing of the Books in September 2017, staff identified the need for \$1.2M in savings to end the year with the State required 2% Reserve.



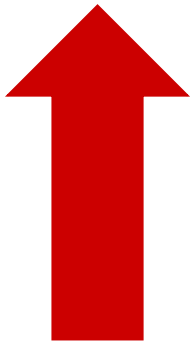
At 2016-17 Closing of the Books in September, fund balance was depleted so we started 2017-18 with only minimum 2% reserve.

Our 1st Budget Revision adjustment projects a further reduction of fund balance to \$1.2M below the 2% requirement.

\$1.2M = Reduction required to meet 2% reserve requirements

Review: 10/11 - First Budget Revision

In addition to the amount to ensure the required reserves, staff recommended an additional cushion of \$13M for unforeseen expenditures. The cushion represents the amount that staff feels comfortable -- with a high level of confidence -- that we will end the year with a balanced budget (i.e. worst case scenario).



- **\$1.2M = Required amount to restore reserves to 2% minimum requirement.**
- **\$13M = Cushion to absorb any unforeseen expenditures or adjustments to existing projections**

Staff recommends **\$14.2 M** in Spending Reductions or Revenue Enhancements in 2017-18



Remaining funds at 2017-18 close will be applied to fund balance (i.e. savings) and/or the self-insurance fund.

Overview: 10/16 and 10/19 Budget and Finance Committee Meetings

- Discussed Fiscal Solvency Objectives for 17-18

- Received updates including a Budget Report detailing Unrestricted and Restricted Revenue and Expenditures
- Reviewed historical trends in restricted programs which have seen increases in recent years (Programs for Exceptional Children, Early Childhood Education, and Nutrition Services) and determined with staff that current 17-18 budget allocations may not be sufficient
- Spent majority of time detailing scope of current year fiscal challenges that need to be addressed
- Identified increasing the Reserve for Economic Uncertainty and the Self Insurance Fund as key priorities

Overview: 10/16 and 10/19 Budget and Finance Committee Meetings

- Reviewed Strategies to Increase Savings
- Determined Timeline and Next Steps for 17-18 Budget Revision

- Received reports to better understand where District is currently investing Unrestricted General Fund dollars including Central departments and School Sites
- Based on historical fluctuations in budgeted allocations, Committee requested and received reports detailing the use of Unrestricted General Fund dollars in four categories as proposed strategies to increase savings: Contracted Services, Books and Supplies, Certificated Administrators, and Classified Administrators
- Scheduled two more Committee meetings prior to 11/8 and identified the need to communicate widely about meetings

Financial Reserves Policy

In August 2017, Board passed BP 3100.1 on Financial Reserves which set a long-term goal of a Reserve for Economic Uncertainty equivalent to 3 months of operating expenses equivalent to approximately 10% of fund balance in unrestricted General Fund. Previous reserve requirement was 3%.

- Committee expressed concern that District is not on track to end the year with the Board required minimum of 3% for a third consecutive year
- Committee identified a 3% Reserve for Economic Uncertainty as a high priority in current fiscal year
- Committee reviewed a tool that staff prepared to set goals for the Reserve in next five and ten years
- Board Policy 3100.1 will require district to exercise more discipline and planning - Board vote is required on expenditures with a plan to replenish it

The State calculates the minimum requirement for the 2% Reserve based on general fund expenditures at the end of the fiscal year.

Self Insurance Fund – Fund 67

After Closing the Books in September 2017, staff informed Board that there was a \$8M reduction to the fund balance of the Self Insurance Fund last year and that the fund balance will need to substantially increase over the next couple of years.

- Staff from Risk Management Office came to the Committee meeting to provide information on what is covered in Fund 67, target goals for the fund based on annual actuarial study, and the risks of having a low balance in the Self Insurance Fund
- District is far below minimum recommended level for Self Insurance Fund
- At the current workers compensation rate, District is projected to meet its “budgeted” expenditures *if no additional expenses are added*
- Fiscal staff presented charts to demonstrate how to achieve optimal level in Fund over next five and ten years
- Risk management staff recommends moving as quickly as possible to restore fund balance to last year as first step

Committee recognized importance of restoring \$8M to Self-Insurance fund in the immediate or very near-term as current balance demonstrates risk

Staff Recommendation

At 10/19 Committee meeting, staff presented a more detailed breakdown of the \$14.2M recommendation (excluding estimates for textbook replacements)

- **\$1.2M = Maintain 2% Reserve**
- **\$4.7M = Contributions to Restricted Programs (PEC, Food Services)**
- **\$7.9M = Contingency Fund (difference between third interim and Closing of the Books + Audit findings)**
- **\$.4M = Unforeseen costs**
- **TBD = Textbook replacement**

*Staff has confirmed \$1M in Audit findings is included in recommendation of \$14.2M



Remaining funds at 2017-18 close will be applied to fund balance (i.e. savings) and/or the self-insurance fund.

Detail of \$14.2 in spending reductions in 17-18

Committee Recommendation

Committee went through a parallel process and used staff reports to come up with a recommended goal based on Committee priorities. Primary areas of variance were in the Contingency Fund, Reserve and Self Insurance Fund.

- **\$1.2M = Maintain 2% Reserve**
- **\$5.2M = Additional 1% to in reserves (e.g. savings)**
- **\$8.0M = Restore Self Insurance Fund to 2016 level**
- **\$1.0M = Reserve for Potential Audit Findings**
- **\$5.0M = Contributions to Restricted Programs**
- **\$5.0M = Contingency Fund (e.g. textbooks, transportation etc.)**

Committee identified \$25.4 in spending reductions needed in near-term to achieve fiscal solvency

Staff Recommendation + Committee Priorities

Committee also examined the potential fiscal impact of combining the staff recommendation with the Committee priorities of restoring the 3% Board minimum reserve requirement and Self Insurance Fund.

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- **\$7.9M = Contingency Fund (difference between third interim and Closing of the Books + Audit Findings)**
- **\$.4M = Unforeseen costs**
- **TBD = Textbook replacement**
- **\$8M = Restore Self Insurance Fund to 16-17 level***
- **\$5.2M = Additional 1% to Board Reserve (3% total)***

* Committee recommended priority

Combined total of \$27.4M

Key Takeaways from Committee Meetings

- Achieving fiscal solvency in the immediate and near-term will require sizeable upfront investment
- Current projections are between **\$14.2M** to **\$27.4M** in spending reductions to reach goals
- Committee recognized the challenges of achieving the higher level targets in current fiscal year and that it may not be possible in 17-18
- However, even the higher target number only represents restoring the Board Reserve and Self Insurance Fund to previous fund levels, and is not making significant progress to achieve long-term fiscal goals in these areas
- Budgeting for a \$5-\$8M contingency fund to account for the close of the year is not desirable and will not help us achieve long-term fiscal stability; more detail is needed to better understand why this occurs and how we are addressing issue

Recommendations and Next Steps

Committee will work with staff in next two meetings to:

- Gain greater understand of and detail for an \$8M contingency fund
- Incorporate staff recommendation on textbook replacement
- Set goals for Board Reserve and Self Insurance Fund in 17-18 and 18-19 based on feedback and recommendations
- Review and provide feedback on staff recommendations to increase savings and decrease expenditures to address mid-year budget adjustments
- Draft resolution for Board to vote on 17-18 budget revisions on 11/8 (will be noticed as a Special Meeting)

After 11/8, Committee will immediately focus on 18-19 budget development and recommend fiscal priorities and goals

Timeline and Next Steps

Date	Engagement
Wednesday, 10/25	Board Meeting: Review Targets for Mid Year Adjustments
Monday 10/30 5 – 9 pm Committee Room	Budget & Finance Committee: <ul style="list-style-type: none">• Draft recommendations on mid-year reductions for feedback• Determine 17-18 goals for Reserve and Self-Insurance Fund
Monday 11/6 5 – 9 pm Committee Room	Budget & Finance Committee: <ul style="list-style-type: none">• Finalize recommendation to Board for 17-18 budget revision• Draft resolution for mid-year reductions
Wednesday, 11/8	Special Meeting: Final Board Approval of 17-18 Budget Adjustments

EVERY STUDENT THRIVES!



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