



2018-19 Frequently Asked Questions for “Close of Books”

Here are some key questions that highlight not only the elements of the budget that we are tracking, but help us deepen understanding of our financial situation:

- 1. Does OUSD have a “rainy day” fund built into its budget?**
- 2. In addition to the “rainy day fund” what other kinds of financial commitments are reflected in the unrestricted fund balance?**
- 3. Did OUSD receive more money (revenue) this year compared to last year?**
- 4. Why does OUSD have \$40.4M in restricted carry-over at the end of the year?**
- 5. What are things that you are thinking about moving forward over the next 3 to 5 years?**
- 6. As we move forward into the 2019-20 school year, what are the improvements that we will be making?**

1. Does OUSD have a “rainy day” fund built into its budget?

Yes. It is a critical benchmark for all school districts across the state to ensure that they have a “rainy day fund” to cover for economic uncertainty. [California mandates](#) a minimum balance for districts like OUSD at 2% of their operating budget and refers to it as the reserve for economic uncertainty. For OUSD, this is a minimum of \$11,300,930. Of note, this 2% amount is significantly less than best practices in school finance. To meet that standard, our District would need to reach 17% -- two months worth of operating expenses -- or \$96M.

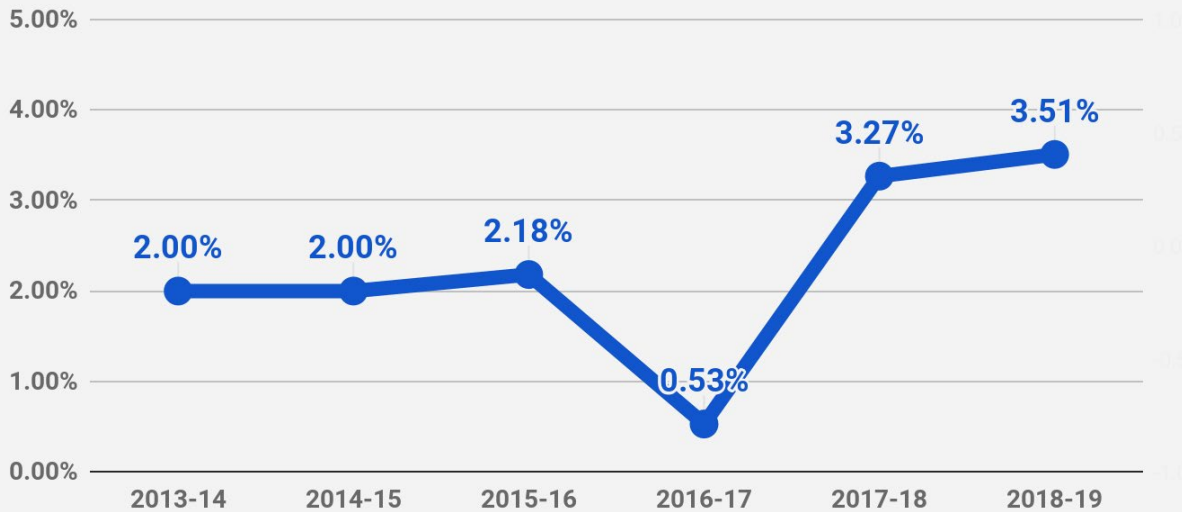
Over the past three years, we have slowly increased our ending fund balance and therefore built our reserve for economic uncertainty. In 2016-17, our reserve dropped to \$3M (0.53%), with almost no room for error or funds to cover emergencies. As our Board and Superintendent continue to grapple with our revenues and expenditures, we have begun to build our reserve by making some hard and often painful decisions. While not there yet, Oakland is moving in the right direction. We closed the 2018-19 year with a 3.5% reserve for economic uncertainty which is \$19.8M (2% state mandate + 1.5% Board Resolution). This money ensures a level of stability for our students and we will continue to make strategic investments and difficult decisions to:

- Increase revenue to the district
- Reduce costs by becoming more efficient in our operational processes
- Reorganize the central office in support of improved service to schools and families



Historical Reserves

Reserve for Economic Uncertainty (%)



2. In addition to the “rainy day” fund what other kinds of financial commitments are reflected in the unrestricted fund balance?

There are commitments we plan to cover using the unrestricted fund balance such as legally mandated Prop 39 charter repairs, audit adjustments, special education accruals as well as using the unassigned/unappropriated funds to cover costs in special education and adopted SEIU contract ([Board Resolution 19-1575](#)). The following are some commitments that we intend to cover using the unrestricted fund balance:

- Prop 39 Charters: \$2.3M** legally must remain in the fund balance as a legal set aside for maintenance on charter schools in OUSD facilities for the maintenance of those facilities.
- Unassigned/Unappropriated: \$5.6M** is in the fund balance from OUSD positions that we could not fill (\$3.1M), materials and supplies that were not expended, and a reduction in the overall number of consulting contracts that the district utilized.

Note: The Chief Financial Officer will be bringing [Board Resolution 19-1575](#) on September 11, 2019 to pay for the increasing special education needs in OUSD for the 2019-20 school year and to fund the implementation of the board adopted SEIU contract. This action is pending board approval.

3. Did OUSD receive more money (revenue) in 2018-19 than projected?



Yes. OUSD had some good news on the revenue side of the budget increased by \$3M from estimated actuals. A few highlights include:

- **Average Daily Attendance (ADA):** Our overall Average Daily Attendance went up giving us nearly an additional \$1M through the States' Local Control Funding Formula.
- **E-Rate:** OUSD was not sure if the Federal and state governments would continue to subsidize the E-rate program to reimburse school districts for technology upgrades for students that qualify for Free and Reduced Lunch. We assumed that the funding would not be allocated, but in the end we received nearly \$1.5 M in unrestricted funds for the E-rate program.
- **Lottery:** The lottery ended up producing more revenue for schools across the state than expected. OUSD received about \$1.1 M more than expected to spend on general expenses and the other half was restricted and must be spent on instructional materials.
- **Grants and Local Funds:** Given the fiscal challenges, OUSD staff was diligently applying for grants to bring in more resources to support student learning. At the end of the year, we were able to bring in nearly \$6.5 M in new revenue that had not been a part of the 18-19 budget.
- **Redevelopment Agency (RDA) Fund:** OUSD receives revenue from the RDA fund. In the past we classified this revenue as unrestricted. In order to align to best practices, we are reclassifying it as restricted revenue. So, on the books, it looks like less unrestricted revenue, but there is an increase in restricted revenue. It is just because of how we are classifying the revenue. This money is dedicated to supporting facilities repairs. We allocated part to support Restricted Maintenance Account and part to fund 14 for deferred maintenance.

4. Why does OUSD have \$40.4M in restricted carry-over at the end of the year?

Carry over is the amount of money carried over from one fiscal year to the next. In this case, much of the money is either already committed for an expense this year or intentional reserves. This can often be confusing. Here is a break down for most of our **\$40.4 M** restricted resources:

- **\$4.7M for G1 Funds for OEA, SEIU and other Bargaining Unit Raises:** As we are implementing the SEIU and OEA raises there is \$4.7M in Measure G1 that will be applied to pay our educators our committed raises. As we implement these agreements, this will no longer be in the ending fund balance.
- **\$7.2M for G1 School Carryover:** These funds are available to cover 2019-20 and future years of negotiated salary increases for represented employees (existing bargaining commitments with OEA and SEIU and ongoing negotiations with other employee groups through Spring).
- **\$6.9M of [Measure N Reserve](#):** Measure N provides funding to high schools to support linked learning. Because Measure N parcel tax revenue and student enrollment in high school is uneven from year to year, the Measure N Commission and Board strategically structured the creation of a reserve in order to provide stable funding of \$850 per student per year and a step down year of funding in case the voters do not renew the parcel tax. In six years, the reserve will be depleted.
- **\$6.8M Federal Funding Reserves:** Approximately \$4.7M in Federal Funding is being held in reserve to help protect against federal budgets cuts and uncertainty in the federal budgeting



process. The remainder of the funds \$2.1M was not expended by school sites and departments. This is a key area for us to improve as a district.

- **\$2.6M of Measure N Site Carryover:** Many of the high schools anticipated carry-over of their Measure N funds. Because of this, they have intentionally carried over funds to support building Linked Learning Pathways. You can find the school's preliminary plans [here](#).
- **\$0.9M in [Central Office Measure N Carryover](#):** The Central Office carried over \$0.9M in Measure N funds to support pathway coaches at OUSD school sites for 2019-20.

5. What financial challenges are we planning for over the next 3 to 5 years?

We--along with other California schools districts--still face long-term financial challenges. Here are some things to watch moving forward.

- **Flat funding and possible recession:** We are facing flat state funding for education in the foreseeable future. Additionally, we are [facing a potential recession](#). We are currently in one of California's longest periods without a recession and that will impact our revenues in a significant way. ([Click here for an OUSD memo on reserve levels](#))
- **Increasing compensation and retirement benefits.** Employee compensation accounts for the vast majority of our budget and costs are rising. Rightfully so. We need to increase salaries to keep pace with the high cost of living in the Bay Area. Our employees deserve to retire with dignity. Our settlements with our labor partners create significant raises in the coming couple of years. Meanwhile, our mandatory contributions to the state retirement system continue to rise.
- **Special education:** Our contributions to special education are also critically important to support our students. Our expenses continue to outpace funding from the state. Spending on special education has increased every year for the last five years.

6. How are we continuing to improve the long-term fiscal vitality of the District?

We will continue to improve our practices. We are seeing the fruit of the work over the past couple of years. In the short-term this is good news. In the longer term we need to increase our financial discipline and ensure that we are always linking academic quality with financial sustainability. Currently we are:

- **Improving our budget development process:** We are building a much more effective budgeting process for the 2020-21 school year that is modeled after the Government and Finance Association's [Smarter Spending Framework](#). To learn more about this process, please review the [slides](#) that were presented to the Budget and Finance/Audit Committee.
- **Creating a Budget Book:** We are developing a Budget Book that will allow the community access to deeper level analysis, more tools and more information to be more transparent about OUSD's priorities and how we are using our resources.
- **Increasing our budget monitoring:** One reason our June budget projection was different from our September actuals is that the June numbers assume sites and departments will spend all of the money allocated to them. For example, if department has only spent \$250 of its \$1,000 professional development budget we assume they will spend the remaining \$750 dollars in their budget. However, if they do not, then it becomes part of the overall reserve. The only way to be



more precise is to remove all or part of that remaining money from their budget in June. Currently, we do remove budgeted amounts that cannot be spent (e.g. salary savings from unhired personnel). Otherwise, we maintain budget amounts for potential upcoming expenses (e.g. unsubmitted invoices).

- **Ensuring our restricted funds are spent in support of students:** Restricted funds are earmarked for certain student and programmatic supports and we need to ensure that this money is allocated both efficiently and expediently. Here is what we are doing this year:
 - Updating our spending guidelines to departments and sites on how to spend restricted funds. It is not as easy as it might seem.
 - Implementing regular budget checks to monitoring spending to see if people are on track to use their funds.
 - Sending more money to school sites by eliminating our practices that hold some of those funds in reserve.