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Board Cover Memorandum

To Board of Education

From Kyla Johnson-Trammell, Superintendent
Lisa Grant-Dawson, Chief Business Officer
Joshua R. Daniels, General Counsel

Meeting Date February 24, 2021

Subject Resolution No. 2021-0040 - Adoption of the Fiscal Sustainability Plan

Ask of the Board Adopt Resolution No. 2021-0040 - Adoption of the Fiscal Sustainability Plan

Background In 2003, the State of California took over the Oakland Unified School District (“OUSD” or “District”) because it was unable to pay its bills. The State ran the District via an appointed administrator until 2008, when the School Board finally regained local decision-making authority, although a trustee still retains veto authority regarding all actions by the School Board that could jeopardize the financial stability of the District.

The District again began exhibiting signs of fiscal distress starting at the end of the 2016-17 fiscal year and which carried into the 2017-18 fiscal year. Thankfully, the District was able to avoid a repeat of 2003 by taking immediate action, which including (among other things) developing and adopting a Fiscal Vitality Plan (“FVP”). The FVP provide a list of 22 recommendations that would, if implemented, help put the District on a path to financial health and vitality.

The District has made significant progress towards implementing these recommendations and creating the fiscal vitality to which the FVP aspired, although the District faces significant financial headwinds, particularly the global COVID-19 pandemic. With the District’s improving but still tenuous fiscal situation and the expiration of the FVP (by its terms, the FVP expired in 2020), the District needs a new plan to help it maintain its hard earned fiscal stability and grow steadily even stronger.

Discussion The proposed three-year Fiscal Sustainability Plan (“FSP”) is meant to serve as a new plan and successor to the FVP. The FSP identifies five areas that the District needs to prioritize to continue on its path to fiscal sustainability: Budget and Operational Practices; Budget Development and Stakeholder Engagement; School Quality and Enrollment; Use of Restricted Resources; and Ability to Make Difficult Decisions. For each of these priorities, the FSP notes that the Superintendent is to

annually; develop specific actions for each priority; ensure that such actions are implemented; and provide a summary of which actions were fully implemented, partially implemented, and not implemented. Under the Resolution, the Board would adopt the FSP and directs the Superintendent to take the annual actions described there.

The Resolution was presented to the Board for a first read on February 10, 2021 and was discussed at the Budget & Finance Committee meeting on February 11, 2021. A few typos in the Resolution and the FSP were noted and corrected.

Fiscal Impact

The adoption of the FSP, by itself, will not impose any fiscal impact on the District. However, the implementation of the FSP will likely involve changes to positions (including reductions) as well as the possibly expansion, resign, merger, or closure of schools. At the same time, the FSP is intended to improve school quality and stabilize and even growth the District's enrollment. Thus, the net fiscal impact cannot be estimated at this time, although the long-term intent of the FSP is, by definition, to stabilize the District's finances.

Attachment(s)

- Resolution No. 2021-0040 - Adoption of the Fiscal Sustainability Plan

**RESOLUTION OF THE
BOARD OF EDUCATION
OAKLAND UNIFIED SCHOOL DISTRICT**

Resolution No. 2021-0040

Adoption of the Fiscal Sustainability Plan

WHEREAS, in 2003, the State of California took over the Oakland Unified School District (“OUSD” or “District”) because it was unable to pay its bills;

WHEREAS, the State ran the District via an appointed administrator until 2008, when the School Board finally regained local decision-making authority, although a trustee still retains veto authority regarding all actions by the School Board that could jeopardize the financial stability of the District;

WHEREAS, the District again began exhibiting signs of fiscal distress starting at the end of the 2016-17 fiscal year and which carried into the 2017-18 fiscal year;

WHEREAS, the District was able to avoid a repeat of 2003 by taking immediate action, which including (among other things) developing and adopting a Fiscal Vitality Plan (“FVP”);

WHEREAS, the District has made significant progress towards implementing these recommendations and creating the fiscal vitality to which the FVP aspired, although the District faces significant financial headwinds, particularly the global COVID-19 pandemic; and

WHEREAS, with the District’s improving but still tenuous fiscal situation and the expiration of the FVP, the District needs a new plan to help it maintain its hard earned fiscal stability and grow steadily even stronger.

NOW, THEREFORE, BE IT RESOLVED, the Board of Education (“Board”) hereby adopts the attached three-year Fiscal Sustainability Plan (“FSP”)—incorporated herein by reference—which identifies five areas that the District needs to prioritize to continue on its path to fiscal sustainability; and

BE IT FURTHER RESOLVED, the Board hereby directs, as outlined in the FSP, the Superintendent to annually: develop specific actions for each priority; ensure that such actions are implemented; and provide a summary of which actions were fully implemented, partially implemented, and not implemented.

PASSED AND ADOPTED on _____, 2021, by the Governing Board of the Oakland Unified School District by the following vote:

PREFERENTIAL AYE:

PREFERENTIAL NOE:

PREFERENTIAL ABSTENTION:

PREFERENTIAL RECUSE:

AYES:

NOES:

ABSTAINED:

RECUSED:

ABSENT:

CERTIFICATION

We hereby certify that the foregoing is a full, true and correct copy of a Resolution passed at a Regular Meeting of the Board of Education of the Oakland Unified School District held on _____, 2021.

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<p>OAKLAND UNIFIED SCHOOL DISTRICT</p> <hr/> <p>Shanthi Gonzales President, Board of Education</p> <hr/> <p>Kyla Johnston-Trammell Superintendent and Secretary, Board of Education</p>
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OAKLAND UNIFIED SCHOOL DISTRICT FISCAL SUSTAINABILITY PLAN 2021-2023

I. INTRODUCTION

In 2003, the State of California took over the Oakland Unified School District (“OUSD” or “District”) because it was unable to pay its bills. In doing so, the State provided the District with a \$100 million loan, which will finally be fully repaid in June 2026. The State ran the District via an appointed administrator until 2008, when the School Board finally regained local decision-making authority, although a trustee still retains veto authority regarding all actions by the School Board that could jeopardize the financial stability of the District.

While under local control, the District was able to weather the Great Recession and the widespread budget reductions that followed. Yet, beginning in the winter of 2016, the District began exhibiting signs of fiscal distress that continued to progress through the end of the 2016-17 fiscal year and carried into the 2017-18 fiscal year. The causes of the fiscal distress were the same as those that gave rise to the need for the 2003 State takeover—primarily, a lack of awareness of and attention to the District’s fiscal situation and an inability for District leadership to make the necessary but difficult decisions to avoid another financial calamity.

Thankfully, the District was able to avoid a repeat of 2003. This time, the Superintendent and the School Board took immediate action. One key step was to develop and adopt a Fiscal Vitality Plan (“FVP”), which included recommendations that would, if implemented, help put the District on a path to financial health and vitality.

The District has made significant progress towards implementing these recommendations and creating the fiscal vitality to which the FVP aspired. The District’s finances are significantly more stable, albeit still weak in certain places. At the same time, the District faces significant financial headwinds, particularly the global COVID-19 pandemic, which has challenged the District in ways never before imagined. With a changing fiscal landscape and the expiration of the FVP, the District needs a new plan to help it maintain its hard earned fiscal stability and grow steadily even stronger. The School Board and the Superintendent will not allow the District to regress back, particularly with the final payment of the State loan so close on the horizon.

II. BACKGROUND

A. **The 2018-2020 Fiscal Vitality Plan**

The FVP, which was designed to start in 2018 and conclude in 2020, included 22 recommendations divided into three different sets. The first set of 10 “Stability” Recommendations “cover[ed]

actions for [OUSD] to implement in the immediate to short-term, one to six months, that [would] allow the district to stabilize its current situation and plan for the future.”

- 1.1 Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty
- 1.2 Institute adjustments to existing Central Office positions
- 1.3 Maximize the use of restricted revenue resources
- 1.4 Evaluate Central Office-based contracts and books/supplies for possible freeze and capture of savings
- 1.5 Pursue capture of donated days and/or furlough
- 1.6 Adjust school per pupil allocations to capture savings
- 1.7 Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood
- 1.8 Update and implement budget forecast and projection practices
- 1.9 Review and update cash flow monitoring practices
- 1.10 Institute immediate protocols to limit and review spending among Central Office and school sites

The second set of nine “Recovery” Recommendations “cover[ed] actions for [OUSD] to implement in the short- to medium-term, three to twelve months, that [would] allow the district to recover from its current financial situation and position itself to make decisions to ensure fiscal vitality in the future.”

- 2.1 Plan for and adopt a balanced budget that avoids future deficit spending
- 2.2 Establish and conduct zero-based budgeting sessions with all Central Office practices
- 2.3 Research, engage and implement a Central Office reorganization
- 2.4 Institute and conduct monthly central office and school site budget monitoring practices
- 2.5 Review, update and implement effective position control practices
- 2.6 Develop a process for pre-approval of extra time employee payments
- 2.7 Review and implement revised contract approval, processing and management procedures
- 2.8 Complete transition to Escape technology system to manage finance and human resource (HR) information
- 2.9 Review and execute on shifts in expenses that maximize the use of restricted funds

The third set of three “Vitality” Recommendations “cover[ed] actions for [OUSD] to implement in the medium- to long-term, six to eighteen months, that [would] allow the district to reach fiscal vitality and ensure that its financial practices support the organization’s mission while maintain[ing] its fiscal health.”

- 3.1. Review and engage school district and school leaders to re-establish appropriate budget roles and responsibility
- 3.2. Establish systems for the management and oversight of bargaining agreements

3.3. Consider and act on recommendations from the Blueprint for Quality Schools review

B. Implementation of the Fiscal Vitality Plan

Over the past three years, the District has implemented many of the recommendations in the FVP. At the same time, some of the recommendations remain in progress or have not been completed. Below is the latest implementation status of each of the 22 FVP recommendations.

1.1. Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty	Complete/Continually Monitor. The District has met its 2% reserve requirement and has set aside an additional 1% reserve.
1.2. Institute adjustments to existing Central Office positions	Complete/Continually Monitor. The District has reduced the number Central Office positions since 2017-18. In 2017-18, there were approximately 1,000 FTE in the Central Office; currently, there are 916 FTE in the Central Office. This excludes recent investments in positions that are funded centrally such as counselors and literacy tutors.
1.3. Maximize the use of restricted revenue resources	Progress Made. The District has improved how it uses and budgets restricted revenues. In 2017-18, the ending balance for <u>restricted</u> funds was \$38.6 million; in 2019-20, the unaudited actuals found that the ending balance for <u>restricted</u> funds was \$34.5 million.
1.4. Evaluate Central Office-based contracts and books/supplies for possible freeze and capture of savings	Complete/Continually Monitor. The District has analyzed Central Office-based contracts and books/supplies for possible a freeze and capture of savings. According to prior District reports, the budgets for Central Office-based contracts and books/supplies were \$26.9 million and \$5.5 million, respectively; in 2020-21, the adopted budgets for the same categories are \$15.4 million and \$6.2 million, respectively.
1.5. Pursue capture of donated days and/or furlough	Complete/One-Time Action. The District asked for voluntary furloughs by senior leadership and discussed the same with its collective bargaining units. The former was implemented; there ended up not being a financial need for the latter. The urgent need for exploring this possibility dissipated soon after adoption of the FVP.
1.6. Adjust school per pupil	Complete/Continually Monitor. The District has reduced

<p>allocations to capture savings</p>	<p>and/or adjusted school per pupil allocations on at least two occasions (i.e., as part of budget reductions for the 2019-20 and the 2020-21 fiscal years). These changes have included across-the-board reductions as well as adjustments to the pupil allocations based on grade level rates (as opposed to school type) and adjustments to enrollment practices to create more sustainable cohorts and fewer combination classes.</p>
<p>1.7. Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood</p>	<p>Progress Made. The District has more closely monitored its contributions to other programs. In 2017-18, the General Fund contributions to special education and nutrition services were \$63.1 million and \$2 million, respectively, according to audited actuals; in 2020-21, the General Fund contributions in the adopted budget to special education and nutrition services are \$70 million and \$1.6 million, respectively, the latter of which will not be required and will be adjusted by Second Interim.</p>
<p>1.8. Update and implement budget forecast and projection practices</p>	<p>Progress Made. The District has improved how it forecasts and projects its budget. In the 2019-20 year, the District shared key areas of focus with the staff and simultaneously made \$21 million in reductions. The 2020-21 budget was built conservatively with not only the projected long term reductions, but specific areas of focus to consider. Due to the 0% COLA versus the projected 10% reductions allocations from the CARES act, the District was able to defer the reductions and the District is developing its budget reduction plan for the 2021-22 and beyond.</p>
<p>1.9. Review and update cash flow monitoring practices</p>	<p>Complete/Continually Monitor. The District has significantly improved its cash flow monitoring practices. This was a key area of improvement as a result of the training provided by the District’s financial consultants. The District is making significant strides in developing its cash flow model to better analyze and model its projections. The District is also keen on discerning the reasons for the annual \$30 million Fall borrowing from the County (not initiated in the Fall of 2020) and mitigating such practices, the impact of the current LCFF cash flow deficits for 2020-21, and the impact of the various restricted grants and programs and their impact to the District’s cash flow.</p>

<p>1.10. Institute immediate protocols to limit and review spending among Central Office and school sites</p>	<p>Complete/Continually Monitor. The District implemented protocols to limit and review spending among Central Office and school sites and continues to monitor the same.</p>
<p>2.1. Plan for and adopt a balanced budget that avoids future deficit spending</p>	<p>Progress Made. The District has made substantial progress in planning for and adopting a balanced budget that avoids deficit spending. In March 2020, the Board approved more than \$20 million in ongoing reductions beginning in the 2020-21 fiscal year. However, more work in this area is needed given the bargained (and needed) increases in compensation and the resultant annual increases in salary and benefits, fragility of state revenue projections as a result of COVID-19, and future projected increases in expenditures.</p>
<p>2.2. Establish and conduct zero-based budgeting sessions with all Central Office practices</p>	<p>Progress Made. While Central Office budgets for 2018-19 were developed through a modified zero-based process, the District was unable to host the meetings as prescribed in 2020-21 for all sites and departments. The District did, however, develop and use a budget meeting format using shared budget development tools/resources in budget planning meetings with all Central Office departments.</p>
<p>2.3. Research, engage and implement a Central Office reorganization</p>	<p>Progress Made. The District has initiated a contract with School Services of California to review and analyze the Business Services, Human Resources, and Technology Department. Though there have been adjustments to these departments since 2017-18, this analysis will provide the District with additional information to support future reorganizations.</p>
<p>2.4. Institute and conduct monthly central office and school site budget monitoring practices</p>	<p>Progress Made. The District has hired a new Chief Business Officer (April 2020) and Director of Budget & Finance (Jan 2021) who have adopted the reorganization plan for the Budget Services Division as approved by the Board in Spring 2020. Under these two new leaders, the District has begun the process of teaching staff how to manage and analyze the budget and actual activities of sites and departments, include reconciling resources and funds as assigned.</p>
<p>2.5. Review, update and implement effective position</p>	<p>Progress Made. The District has developed the draft and is in the first phases of implementing its Standard Operating</p>

control practices	Procedure for position control with support from the ACOE and as part of the Intensive Support and Technical Assistance (“ISTA”) work and progress.
2.6. Develop a process for pre-approval of extra time employee payments	Progress Made. The District has conducted an analysis of all "stipends" paid to employees and remedied any stipends that weren't clearly part of a collective bargaining agreement or Board approved. The District has not conducted a similar analysis of other forms of additional pay in recent years, but is including it as part of its 2021-22 Budget development process to include the widespread use of “Additional Contracts.”
2.7. Review and implement revised contract approval, processing and management procedures	Progress Made. The District has updated BP and AR 3312 (Contracts and Delegation of Authority), BP 3290 (Gifts, Grants, and Bequests), and BP 3320 (Claims and Actions Against the District). The District has also updated its Contracts Online system and now conducts annual trainings for staff on the process and requirements regarding contracts.
2.8. Complete transition to Escape technology system to manage finance and human resource (HR) information	Complete/Continually Monitor. The District has completed its transition to Escape; however, there are still several areas that have caused the District significant challenges in its financial management and monitoring. For instance, the District is currently working aggressively to develop reports and system enhancements to the benefits sub-ledger and simultaneous upgrades to the payroll reporting and outcomes. There were also Phase II elements that had not been initiated and other procedural upgrades that were slow in launching. The District has re-engaged with Escape and ACOE and is preparing to finalize the Phase II plan as well as identify the appropriate positions required to maintain progress.
2.9. Review and execute on shifts in expenses that maximize the use of restricted funds	Progress Made. The District is managing the use of its restricted funds. This involves understanding where such use is sustainable and where such use has reached a cresting point. Key concerns include the number of FTE funded by restricted funds and the high contribution required by restricted programs, particularly Special Education.
3.1. Review and engage school	Progress Made. Progress has been made in this area with

<p>district and school leaders to re-establish appropriate budget roles and responsibility</p>	<p>Division leaders in the building of the 2020-21 budget. This work will continue to reach school sites and departments as the District develops the budget for 2021-22 and beyond. Budget Services Division staff, for instance, have been introduced as Business Partners and are being trained on how to manage and analyze the budget and actual activities of sites and departments, include reconciling resources and funds as assigned.</p>
<p>3.2. Establish systems for the management and oversight of bargaining agreements</p>	<p>Progress Made. The District’s newly established Business management team (CBO, Director of Budget, Controller, Director of Payroll) is working with the Labor Relations Department to establish and clarify key roles with respect to labor negotiations, to include offering professional development to site and department leaders on position control and funding, and leave management consistent with the District labor agreements and policies.</p>
<p>3.3. Consider and act on recommendations from the Blueprint for Quality Schools review</p>	<p>Progress Made. The Board has approved and the District has implemented two cohorts, which expanded three schools, redesigned one school, merged eight schools into four, and closed one school. The Board also adopted Resolution No. 2021-0128 (Advancing District’s Citywide Plan Work), which requires the Superintendent to propose additional school expansions, redesigns, mergers, and/or closures for Fall 2022. Should the Board vote against a merger or closure, the Board must approve ongoing reductions of at least the ongoing net savings from the rejected merger or closure; otherwise, the Superintendent shall proceed with the proposed merger or closure.</p>

C. Improved Areas

In addition to the actions taken based on the FVP, the District has undertaken a number of other actions that have helped the District make significant progress towards long-term fiscal vitality.

- **Leadership Stability and Capacity.** The Superintendent is currently in her fourth year and the Board unanimously approved extending her contract through June 2023. If she stays in the position through that date, she will be the longest serving Superintendent in 50 years. Additionally, the Board approved a multi-year contract with an experienced Chief Business Officer that runs through June 2022. The current Chief Academic Officer has

served in her position since 2018 and the Chief Talent Officer has served in her position since 2018.

- **Additional Reserve.** While the District’s Minimum Required Reserve is 2%, the District has been able to set aside and maintain an additional 1% reserve in 2018-19 and 2019-20. The District’s 2020-21 Budget at First Interim includes the additional 1% reserve and it is expected that the District will end 2020-21 with the additional 1% reserve intact.
- **Unrestricted Ending Fund Balance.** The District’s unaudited actual unassigned unrestricted ending fund balance for 2019-20 was approximately \$8 million. The District’s 2020-21 Budget at First Interim projects an unassigned unrestricted ending fund balance of \$11 million as of June 30, 2021, which reflects progress in the District’s ability to meet its obligations in the current year and build its reserves year over year.
- **Ability to Make Difficult Decisions.** The District has made a number of difficult but necessary decisions that support long-term fiscal sustainability. For instance, the Board approved more than \$20 million in ongoing reductions in March 2020. Additionally, the Board approved expanded three schools, redesigned one school, merged eight schools into four, and closed one school—all in order to increase the quality and fiscal sustainability of its schools.

D. Assembly Bill No. 1840 (“AB 1840”)

Another factor that has helped improve the District’s long-term fiscal outlook is AB 1840, enacted in 2018, which provides OUSD with additional one-time funding each year for three years (2019-20, 2020-21, and 2021-22) if OUSD satisfies certain conditions. Specifically, the District is provided with 75%, 50%, and 25%, respectively, of the District’s “operating deficit” as determined by FCMAT and ACOE in 2019-20, 2020-21, and 2021-22, if the District satisfies the conditions. While AB 1840 provided a list of possible conditions in Education Code section 42160, the actual conditions are to be established annually in the Budget Act.

For 2019-20, the District’s estimated “operating deficit,” as determined by FCMAT and ACOE, was approximately \$0.7 million and the conditions were not explicitly listed in the Budget Act. The District received its allocation of \$0.51 million in May 2020.

For 2020-21, the District’s estimated “operating deficit,” as determined by FCMAT and ACOE, was approximately \$32 million. The two conditions imposed in the State’s 2020-21 Budget Act were (i) timely completion of the District’s annual audit for 2019-20 and (ii) “affirmative board action to continue to update or develop short-term and long-term financial plans based on best practices and reasonable and accurate assumptions.” The \$16 million (half of the \$32 million) to be allocated to the District for 2020-21 will be incorporated in the District’s 2020-21 Second Interim budget as the District expects to meet these conditions.

The amount of the 2021-22 allocation will be determined by FCMAT and ACOE in their annual March 1 letter. The conditions for the allocation have yet to be determined as the Governor has not released his May Revise (which typically includes the proposed conditions) and the State has yet to adopt its 2021-22 Budget.

E. New Pressures

At the same time, there are a number of factors that could work to undermine the District's improved financial condition.

- **Deferrals.** The State's 2020-21 Budget included significant deferrals for all school districts. For OUSD, this amounts to a delay of \$84 million in state funding. The District expects to manage its cash flow through the issuance of Tax Revenue Anticipation Notes (TRANs), the authorization of application which has previously been granted by the Board.
- **Long-Term COVID-19-Related Impacts.** The COVID-19 pandemic will likely impact OUSD in unprecedented and unpredictable ways. Although much of the immediate cost of COVID-19 (e.g., the need to purchase devices and personal protective equipment) has been funded through additional federal funding, the long-term impacts may include lower state and federal funding for schools, even if such impacts are delayed. COVID-19 is also likely to impact demographic and enrollment trends in ways that are now yet able to be known.
- **Competitive Compensation.** The District continues to desire to offer competitive compensation to its employees and to do so in a fiscally responsible manner. Salaries for OUSD employees continue to be lower than many neighboring districts, although the District's benefits package is still more competitive than many neighboring districts. Additionally, the ever-increasing cost of housing in the Bay Area makes offering competitive compensation both more important and more difficult.
- **Growing Operating Deficits.** According to the Multiyear Projection in the 2020-21 First Interim Budget, the 2021-22 budget is projected to be balanced and includes \$16 million in reductions that will be presented in February 2021 and expected to be approved by April 2021 as listed in the Budget Development calendar. However, there is a projected deficit for 2022-23 of \$8.7 million, and this is based on an increase of 2.29% in the LCFF funding. While this is an improvement over years past, it still demonstrates the continued challenges to long-term sustainability.

III. FISCAL SUSTAINABILITY PRIORITIES

Based on the items in the FVP that have not yet been completed, the additional improved areas, and new fiscal pressures, the District has selected five areas that it needs to prioritize to continue on its path to fiscal sustainability.

A. Budget and Operational Practices

There are a plethora of budget and operational areas in which the District needs to improve its practice. These areas include:

- Purchasing and procurement (including contract management)
- Position control
- Cash flow projections
- Student nutrition (including building an independent and viable food service system)

- Enrollment projections and staffing (including position funding and program management and audit requirements)
- Leave management (including accurate reporting and tracking)
- Benefit-related agreements and practices (including any outstanding liability unreported on the District's financial statements)
- Budget and account management
- Associated student body fund management
- Internal controls
- Employee compensation and bargaining management and oversight
- Effective use and strategies of one-time funds

The District has attempted to improve its practices in these areas in the past, including through the FVP. While some success has been attained, outstanding issues remain primarily due to high turnover in leadership and, as a result, a limited knowledge base within key departments. There have also been budget reductions over time that have significantly impacted the ability of key departments to maintain a minimal level of operational capacity. In particular, the ability of the District to hire a leadership team in the Budget Services Division that possesses the knowledge and experience to evaluate, educate, and effectively move the District forward has been imperative. With the hiring of a permanent, experienced Chief Business Officer and other leadership positions within the Budget Services Division, along with continued support from the Alameda County Office of Education, the District is in a strong position to make significant progress in these areas.

In 2021, the District is continuing to set the stage for strategic and measurable progress. The District's use of existing reports, to include consistent audit reports, requested County support and the related ISTA work, AB 1840, and an active Federal Program Monitoring engagement that have consistently unveiled and reported the same organizational deficiencies and operational needs. It is not expected that these areas of deficiency will be eliminated in 2020-21; rather, the District will make measurable progress toward the elimination of these findings. The District's budget developed also focuses on sustainable operational health, which requires strict prioritization of understanding revenue generation and spending.

When the District establishes its list of actions that it will utilize to act on this priority, it will include the following recommendations from the FVP (on which the District made progress on but did not complete) that are connected to this priority: recommendation 2.4 (Institute and conduct monthly central office and school site budget monitoring practices), recommendation 2.5 (Review, update and implement effective position control practices), recommendation 2.6 (Develop a process for pre-approval of extra time employee payments), and recommendation 2.7 (Review and implement revised contract approval, processing and management procedures). This priority will continue those efforts.

B. Budget Development and Stakeholder Engagement

The District has historically struggled to initiate its budget development process sufficiently earlier in order to both engage key internal and external stakeholders as well as analyze different budgetary strategies and approaches. The District intends to change this moving forward.

The District's budget development process should be designed to directly embrace the District's historical and cultural nuances as well as key areas of priority and direction. This will require the District to evaluate and, if necessary, change its current policies and practices. In particular, the District expects to initiate its budget development for future budgets much earlier in the fiscal year than it has done in the past.

In addition to starting the budget development process earlier, the District also intends to improve its ability to communicate its budget challenges. For instance, the District is committed to explaining how annual increases in salaries, benefits, and retirement (e.g., from step-and-column increases) put significant strain on the sustainability of the District's long-term financial status.

When the District establishes its list of action that it will utilize to act on this priority, it will include the following recommendations from the FVP (on which the District made progress on but did not complete) that are connected to this priority: recommendation 1.8 (Update and implement budget forecast and projection practices), 2.2 (Establish and conduct zero-based budgeting sessions with all Central Office practices), and recommendation 3.1 (Review and engage school district and school leaders to re-establish appropriate budget roles and responsibility). This priority will continue those efforts.

C. School Quality and Enrollment

For the District to maintain and improve on its fiscal stability, it must continue to improve school quality and maintain (if not grow) its current enrollment. These two areas—school quality and enrollment—are intertwined in most districts but this is particularly true in OUSD. Many OUSD schools are under-enrolled, located in areas where few students live, or both. Having schools with low enrollment prevents OUSD from providing a high quality school to all students as this spreads District resources too thin. Conversely, of course, having high quality schools will attract more students and increase enrollment.

This priority is especially important given the potential impact of the COVID-19 pandemic. Statewide, California has seen a significant decline in enrollment. While OUSD was spared such a dramatic decrease for 2020-21, the same may not be true for 2021-22 and beyond given the challenges of providing in-person learning opportunities for students moving forward.

The FVP was more focused on the operational and budgetary aspects of fiscal vitality. This priority is added in order to acknowledge the fact that fiscal sustainability is dependent on enrollment stability and the related issue of school quality.

D. Use of Restricted Resources

The District has used restricted resources to obscure ongoing structural challenges with its budget and, at the same time, has built up sizable ending fund balances in each restricted resource. Both of these practices need to be changed.

The reasons for the District's historic uses of restricted resources are varied and include inadequate state funding that does not match the District's priorities as well as the loss of institutional knowledge via staff turnover. One specific practice of concern has been the split funding of positions with different resources. Not only can this lead to the improper use of restricted resources but it can obscure the true nature of the District's financial situation and make it harder to determine and focus on the District's base program. (This may also contribute to a negative perception by some regarding how the District has been using parcel tax resources.) Relatedly, the District needs to continue to improve its organizational understanding of best practices with respect to the use of restricted resources, particularly one-time restricted resources (although the District recently demonstrated the ability to properly spend one-time restricted funding through its compliant and timely spending of its allocation of Coronavirus Relief Funds).

With more stable leadership and a stronger (but still challenged) financial situation than in the past, the District intends to move forwards clarifying how LCFF and other base resources are used. This will, in turn, release restricted resources (including parcel taxes) to fund programs that are supplemental to the base program and that are more in line with the proper use of those restricted resources.

By level setting the areas of required and desired investments, the District can (i) build a sustainable plan for how restricted resources support the District's base program, (ii) project more accurately how long these resources will be available, and (iii) make true strategic business decisions regarding programs and their projected viability and funding needs to remain sustainable. In doing so, the District will also actively engage with the various oversight committees/commissions and other stakeholder groups.

When the District establishes its list of action that it will utilize to act on this priority, it will include the following recommendations from the FVP (on which the District made progress on but did not complete) that are connected to this priority: recommendation 1.3 (Maximize the use of restricted revenue resources), recommendation 1.7 (Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood), and recommendation 2.9 (Review and execute on shifts in expenses that maximize the use of restricted funds). This priority will continue those efforts.

E. Ability to Make Difficult Decisions

In the last few years, the District and the Board have been able make difficult decisions in support of the District's long-term fiscal sustainability. These decisions have included reducing central office staffing and reorganizing central office departments, proposing and approving additional reductions to ongoing expenditures, and improving school quality and financial sustainability through expanding, redesign, merging, and closing schools. Looking forward, the District must also

grapple with difficult decisions regarding the long-term consequences of and tradeoffs inherent in school investments, particularly with respect to the impacts on already struggling schools.

Most fiscal-related discussions within the District focus on the “the what.” However, it is equally important—if not more important—to focus on “the why.” For instance, it is difficult but necessary to discuss why enrollment is declining and to articulate why expenditures are increasing. The only way the District is going to continue to be able to make difficult decisions is to explain the why and for the community, staff, and particularly the Board to understand the why. Focusing on “the why” is critical to build trust of the District and understanding of the District’s challenges by key stakeholders.

When the District establishes its list of action that it will utilize to act on this priority, it will include the following recommendations from the FVP (on which the District made progress on but did not complete) that are connected to this priority: recommendation 2.1 (Plan for and adopt a balanced budget that avoids future deficit spending), recommendation 2.3 (Research, engage and implement a Central Office reorganization), and recommendation 3.3 (Consider and act on recommendations from the Blueprint for Quality Schools review). This priority will continue those efforts.

IV. NEXT STEPS

This Plan establishes the priorities on which the District will focus over the next three years (2021-2024). The Superintendent (or designee) will annually develop specific actions for each priority, which will include (among other actions) the aforementioned FVP recommendations on which progress has been made but which have not been completed. A draft list of actions for the priorities will be created each May (starting May 2021) for the subsequent fiscal year and this list will be shared with the Board, the Alameda County Office of Education, and other key stakeholders. The Superintendent will then determine the final list by June. In September of each year (starting September 2022), the District will review the list of actions from the prior year and will provide a written report and analysis summarizing which actions were fully implemented, partially implemented, and not implemented. These dates correspond with the District’s Budget (May) and UnAudited Actuals (September) timelines.

The FVP was a three year plan and the District believes that this Plan can and should be implemented in the same amount of time—i.e., starting in 2021 and concluding in 2023. (The end of that term (2023) also is the year in which the I-Bank portion of the District’s emergency state loan is currently scheduled to be paid in full. The State portion of the emergency loan is currently scheduled to be paid in full in 2026.) Moreover, if these priorities are addressed, the District would likely be in a place where it would no longer need the ongoing assistance ACOE has been providing—at the District’s request—since 2019.