



Alameda County Office of Education

L. K. Monroe Superintendent of Schools

April 16, 2021

Shanthi Gonzales, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2020-21 Second Interim Budget Report

Dear President Gonzales,

The Oakland Unified School District (OUSD) filed a QUALIFIED certification of the District's 2020-21 Second Interim Budget Report with the Alameda County Office of Education (ACOE). In accordance with Education Code (EC) Section 42131, ACOE reviewed the Second Interim Budget Report, based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127.

Based on ACOE's review and analysis, the Second Interim Budget Report approved by OUSD's Governing Board (Board) on March 10, 2021, accurately reflects the financial status of the district. ACOE, therefore, concurs with the District's QUALIFIED certification with our comments outlined below.

LCFF Revenue Projections & Average Daily Attendance (ADA)

In consultation with the CDE, ACOE has confirmed OUSD will be funded in 2020-21 based on its corrected 2019-20 P-2 ADA report, plus additional Charter ADA for those charters that ceased operation during or after the 2019-20 school year. OUSD was not required to apply for this funding with the Growth Funding application and has received a total of 212.21 P-2 ADA from closed Charters both within and outside Alameda County. ACOE has shared this information with the District's fiscal staff and is pleased that ACOE's former LCFF ADA concerns have been resolved.

As expressed in ACOE's First Interim correspondence, OUSD projects continued declining enrollment throughout its Multiyear Budget Projection (MYP). While current "hold-harmless" legislation mitigates these declines through 2021-22, this legislation is set to expire in 2022-23. The COVID-19 pandemic has created even more uncertainty around enrollment; therefore, we believe that a conservative approach is important for LEAs. ACOE advises the District to create plans for additional budget-balancing solutions in case enrollment projections fail to materialize.

Multiyear Budget Projection (MYP) – District’s Required Cuts

OUSD’s 2020-21 Second Interim Multiyear Budget Projection (MYP) includes unidentified ongoing expenditure reductions that have increased since its First Interim Budget Report, showing limited progress to identify or incorporate budget-balancing solutions into the budget. For example, the District’s First Interim Budget Report included \$52 million in combined unidentified reductions from 2021-22 through 2022-23. These unidentified reductions have increased to \$61.8 million within the District’s Second Interim MYP. The District’s Second Interim MYP includes \$5.7 million in combined salary reductions to 2021-22, as well as \$3.2 million in unidentified reductions, “Other Adjustments”. Further, the District includes \$58.6 million in unidentified combined reductions to 2022-23. While the District’s submitted MYP demonstrates the ability to meet its minimum Reserve for Economic Uncertainties for the current and subsequent fiscal years, once the unidentified reductions are removed, the District has a **negative** 1.56% Reserve for Economic Uncertainty (REU) in 2022-23.

As expressed during the public disclosure communication, in the Second Interim packet and Public Disclosure documents, ongoing expenditures are balanced on one-time revenue but are carried forward throughout OUSD’s Multiyear Budget Projections. For example:

- Salaries and Benefits, in total at Adopted Budget, were projected at \$464 million; as of the Second Interim, before accounting for the effects of this most recent Tentative Agreement, Salaries and Benefits in total are budgeted at \$509 million and increase annually within the MYP.
- The District’s financial analysis projects the District is required to implement **\$3.2 million** in budget-balancing solutions in 2021-22 and **\$58.6 million in 2022-23**.
- ACOE is still awaiting a detailed plan for how OUSD will address these ongoing budgetary shortfalls.

ACOE has not received OUSD’s board-approved budget-balancing solutions or a timeline of its implementation aside from OUSD’s short-term stabilization “Bridge Plan”. The District must address the structural deficit including a detailed plan of action and status updates to the County Trustee and ACOE. ACOE’s First Interim letter clearly expressed ACOE’s expectation to receive with OUSD’s Second Interim Report a list of Board-approved and identified budget-balancing solutions on or before March 16, 2021. ACOE received OUSD’s resolution to approve its Second Interim Budget Report, which includes an executive summary of short-term solutions and the use of one-time funds as a “Bridge Plan” to aid the District with its budget prioritization. Most notable is the District plans to use \$5 million of its tentative 2021-22 AB 1840 grant funds as a one-time solution to defer implementing budgetary solutions. As a reminder, AB1840 funds are contingent on OUSD right-sizing its budget, addressing its structural deficit, while creating stability for the students most at risk. ACOE understands the “Bridget Plan” resolution (File ID: 21-0497) was read to the Board in February, but will be formally presented to the Board at the end of April 2021 for action. While we recognize the District’s efforts to meet ACOE’s request amid many dueling priorities, it is important to note that the district’s process has yet to meet the

true intention for the District to be clear to its stakeholders regarding the structural deficit and needed budget-balancing solutions.

Health Benefits and Governing Board (HBGB)

As mentioned at Second Interim and within ACOE's Corrective Action Audit review process, ACOE understands there is an unrecognized HBGB liability for the District, and it is recommended the District work toward designating a portion of its fund balance to address this potential obligation. While the District works to confirm the amount with its stakeholders, the next reporting period (Third Interim) must include a tentative designation in the District's fund balance and throughout its MYP to address this obligation.

Blueprint for Quality Schools Progress

As mentioned at First Interim, ACOE recognizes moving forward with OUSD's Blueprint for Quality Schools taskforce is a necessary process as the district continues to decline in enrollment. It is imperative that OUSD continue facility discussions and implement action plans that support fiscal sustainability and improved school quality in the 2020-21 fiscal year and beyond.

Debt Issuance

We would like to remind the District of the statutory requirements for debt issuance for school districts with qualified or negative interim report certifications in the current or prior year. According to EC Section 42133(a), *"a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district ...unless the county superintendent of schools determines...that the district's repayment of that indebtedness is probable."*

Please ensure that any debt instruments that do not require the approval of the voters of the District are submitted to our office at least 30 days prior to the District's Board action in accordance with Education Code Section 17150.1 and Assembly Bill 2197.

Collective Bargaining

We would like to remind the District of the requirements of Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) on the public disclosure of collective bargaining agreements. As a qualified District, OUSD is required to provide ACOE with an analysis of the cost of any settlement and its impact on the operating budget at least 10 working days prior to the date the District Governing Board will take action on the proposed agreement.

Cash Flow Concerns

Due to the State's reliance on apportionment deferrals, we encourage all LEAs to closely monitor their cash flow throughout the course of operation. For LEAs throughout the state, the need to retain reserves above the minimum is a necessity. As of April 2021, OUSD utilized a temporary \$7 million loan to the General Fund. OUSD is also expected to participate in a Tax Revenue Anticipation Note (TRAN) of \$30 million to mitigate the impact of the deferrals. This is expected to be repaid in full by December 2021 from OUSD's State Apportionments. As a reminder, the effects of these deferrals, coupled with the removal of hold-harmless ADA provisions in 2022-23, will pose cash concerns for LEAs in the foreseeable future. We encourage governing boards to thoughtfully identify and implement budget adjustments throughout the course of operation, as well as vigorously monitor the LEA's cash position.

Conclusion

While the one-time revenues from state and federal resources have helped navigate the COVID-19 pandemic, when they expire in 2022-23, many LEAs will be faced with the same financial pressures that lead to structural deficits prior to the pandemic. As a result, ACOE cautions the District to remain vigilant about its budget and fiscal practices.

The District is required to continue to update ACOE bi-weekly on its progress in identifying the \$61.8 million in reductions and/or revenue enhancements. It is important to note that during this time, OUSD must remain resolute in its commitment to the District's fiscal solvency.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. If you have any questions or concerns regarding our review process, please feel free to call me at (510) 670-4140.

Sincerely,



L.K. Monroe
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
Dr. Kyla Johnson-Trammell, Superintendent, Oakland USD
Lisa Grant-Dawson, Chief Business Official, Oakland USD
Tony Thurmond, State Superintendent of Public Instruction, CDE
Chris Learned, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Interim Chief of District Business & Advisory Services, ACOE