January 23, 2026

Dr. Denise Saddler, Interim Superintendent
Members of the Board of Education
Oakland Unified School District (OUSD) via email

RE: QUALIFIED certification of 2025-26 First Interim Budget Report

Dear Superintendent Saddler and Members of the Board,

OUSD filed a Qualified certification of the District's 2025–26 First Interim Budget Report covering the period ending October 31, 2025, which the Board of Education approved on December 10, 2025. A Qualified Certification means that, based on current projections, the District may not be able to meet its financial obligations for the remainder of the current fiscal year or the subsequent two fiscal years.

Based on the District's First Interim Budget Report, ACOE finds that the District's Qualified certification is contingent upon the Board's full and timely implementation of $27 million in Immediate Emergency Strategies to Restore the 2025–26 Fund Balance approved with the First Interim Report, as well as a full and timely adoption of $103 million in ongoing reductions in the following years, for which detailed plans have not yet been presented and adopted.

By a strict application of fiscal standards, the conditions described in the district's First Interim Budget Report align closely with the risks associated with a *Negative* certification. However, debating the label obscures the more important point: the remedy to fiscal instability is the same regardless of certification status. The District's instability is driven by deferred decisions and unimplemented actions that continue to compound risk. Stability will follow only from making budget-balancing decisions and implementing them.

Fiscal Risks:

The District's current position reflects long-standing structural challenges, compounded by another year of deferred, rescinded, or partially implemented decisions. At this time, the District is actively drawing down reserves, weakening the safeguards that have prevented insolvency to date, and continuing to increase expenditures without implementing compensatory reductions—placing both fiscal solvency and recently restored local control at risk.

ACOE's review highlights several interrelated risks:

- Declining Enrollment: While we celebrate both current year growth in enrollment and a multiyear trend favoring district over charter growth, the fact is overall enrollment continues to be on a significant multiyear downward trend, a pattern that reduces ongoing revenues while fixed costs remain largely unchanged.

- Structural Deficit Spending: The Unrestricted General Fund projects a $36.8 million deficit in 2025–26, increasing to $93 million in 2026–27 and $90.4 million in 2027–28. This reflects expenditures that consistently exceed revenues.
- Inadequate Fund Balance: The projected $19.03 million fund balance in the current year is insufficient to meet the State's minimum 2% Reserve for Economic Uncertainties. Without timely implementation of approved reductions, the District is projected to enter a negative fund balance in the upcoming school years. School budgets are required to cover 3 years.
- Reliance on One-Time and Restricted Resources: To meet reserve requirements, the District is relying on Supplemental and Concentration carryover and transfers from other unrestricted and restricted resources rather than a stable Base General Fund, masking the true size of the structural deficit while increasing programmatic risk.
- Implausible Revenue Assumptions: Budget balancing scenarios assume $10 million in new revenue from attendance gains that haven't yet materialized. While attendance has improved, counting on gains at this scale introduces significant risk.
- Overstated LCFF Revenue: ACOE analysis indicates LCFF revenue may be overstated by approximately $13 million over three years.
- Declining Cash Position: Although projected to remain cash-positive in 2025–26, the District's cash balance has declined by approximately 47% since 2022–23, limiting flexibility and accelerating the timeline for intervention if projections are missed.
- Superintendent Leadership Instability: OUSD is currently operating with an Interim, first-time Superintendent while conducting a superintendent search.
- CBO Leadership Instability: OUSD is also operating without a Chief Business Officer. The challenges of filling this critical and highly technical role are exacerbated by current conditions of fiscal and leadership instability.
- Complex Budgeting Practices: At over $800 million, the OUSD budget is inherently complex, but historical practices make it far more complex than necessary, resulting in reduced transparency, efficiency, and decision-making clarity. OUSD would be well served to use this moment of leadership transition to simplify its budgeting process.

The Risks of Delay

At this time, the District lacks a credible roadmap to implement over $100 million in reductions. While a narrow majority has approved the high-level outline of "Scenario 3," the path to implementation is unclear, and the Board remains divided on core structural decisions, including fundamental questions about the sustainability of the size and structure of the district.

Each delay narrows the District's options. Statutory timelines for employee notices, collective bargaining requirements, and reserve compliance mean that decisions deferred today often become forced decisions tomorrow.

ACOE recognizes and appreciates that the Superintendent and Board are now examining solutions that were previously "off the table." That willingness to engage with difficult decisions is necessary and reflects the seriousness of the District's fiscal condition. However, budget certifications are not expressions of confidence or intent. They are formal assessments grounded in accounting standards, audit rules, and legal safeguards designed to protect public funds and prevent insolvency.

Contemplating new solutions is a long way from implementing them. Fiscal determinations must be grounded in decisions that are adopted, implemented, and reflected in the District's actual budget practices—not in hoped-for outcomes. The District's recent history shows a well established pattern of deferring difficult decisions and reversing or delaying corrective actions. While it is both possible and necessary for the Board to take decisive action to enact these reductions, doing so on the required timeline would represent a substantial change from recent OUSD patterns of delayed decisions and inconsistent follow-through.

Local Control

OUSD recently regained local control after many years of state oversight. Preserving that control depends on the elected governing board making timely decisions, implementing adopted actions, and aligning commitments with capacity.

Local control means the locally elected Board of Education exercises its authority—and responsibility—to make budgetary and programmatic decisions. Those decisions include whether to reduce staffing, renegotiate compensation, close schools, or restructure programs within the context of fiscal instability. At the same time, local control does not mean the absence of oversight. The county office does routine oversight of all districts and sounds the alarm when the district is on dangerous ground. The county superintendent does not have the authority to make fiscal decisions for the elected board; the county office names risks and actions that the elected board is legally required to make *for itself* to maintain local control.

In recent months I have received requests to intervene to stabilize OUSD's finances. These requests appear to be based in the mistaken belief that county intervention would prevent state intervention. However, more than a decade ago, responsibility for fiscal intervention in school districts moved from the State directly to county offices of education. The County Superintendent *is* the agent of the State for purposes of fiscal oversight. **"Local control" and "state takeover are the two options. There is no intermediate intervention.** When county intervention occurs, it is not a precursor to state action; it *is* the mechanism the State uses to protect students, employees, and public funds.

By self-certifying as Qualified, the Board has asserted that it has a viable plan to meet the District's obligations. That assertion now carries a responsibility to act with urgency and follow-through. The County Superintendent will continue to walk the line required by law: defending local decision-making while enforcing the standards that make it sustainable. That balance is not always comfortable. But it is essential to protecting students, staff, and the community's long-term ability to govern its own schools.

County Superintendent Actions:

Pursuant to Education Code section 42127.6, when a school district has a qualified or negative status, the county superintendent of schools shall direct actions to ensure that the school district meets its financial obligations.

ACOE recommends the following actions:

- Engage Fiscal Experts: The recent addition of the HYA Team adds significant fiscal expertise. These individuals have supported other districts in fiscal distress. Please listen and take their guidance seriously.
- Monitor Cash and Expenses: Maintain ongoing contact with the ACOE Fiscal Team to continuously track all fund and cash balances of the District; encumber all contracts and other obligations; prepare appropriate cashflow analyses and monthly or quarterly budget revisions; and appropriately record all receivables and payables.
- Move from Plan to Action: Immediately present the Board with a proposal for addressing the fiscal conditions that resulted in the determination that the District may not be able to meet its financial obligations, including recommended actions based on sound fiscal projections and without over-reliance on one-time funds.
- Restructure the OUSD Budget: Increase transparency and the ability to effectively maximize funds by changing internal budgeting practices—especially budgeting most restricted dollars first, budgeting to spend this year's dollars on this year's students, moving unassigned dollars below the line, and simplifying structures to mirror recent changes away from site-based budgeting.

As the Board considers and enacts future actions, the following factors should be weighed in consideration of the timing of these hard decisions:

- Collective Bargaining: The Board cannot authorize future compensation increases without corresponding tradeoffs. We share this Board's belief in retaining great staff. However, sustainable compensation requires offsetting reductions elsewhere.
- Staffing Calendar: School employees are legally entitled to notice of changes in the spring prior to implementation. This narrows the window for structural staffing adjustments.
- Second Interim: Avoiding further fiscal uncertainty and intervention depends on the Board acting within the timelines established with its First Interim MYP, and as approved in Resolution No. 2526-0177A, ensuring solutions are implemented within the 2025–26 Second Interim Report.

Reminders Due to Qualified or Negative Certification:

- Non-Voter Approved Debt: EC Section 42133 prohibits a district from issuing non-voter approved debt (e.g., certificates of participation, capital leases, and TRANs) in 2025-26 and 2026-27, unless the county superintendent determines that the district's repayment is probable.
- Employee Negotiations: Collective Bargaining is not settled for the current year. Government Code Section 3540.2(a) requires a school district that has a Qualified or Negative Certification to allow the county superintendent of schools at least 10 working days to review and comment on any proposed collective bargaining agreement prior to board action.

ACOE staff will continue to work closely with the Board, the superintendent, and her leadership team to support the District in making *its own best decisions* through this critical process. We urge the Board to continue making timely and prudent decisions regarding ongoing revenues and expenditures to ensure that OUSD meets its financial obligations and achieves long-term fiscal solvency.

In community,

Alysse Castro
Alameda County Superintendent of Schools

cc: Ryan Nguyen, Chief Financial Officer, Oakland USD
La Tanya Kirk-Carte, Fiscal Advisory Team, Hazard, Young, Attea & Associates (HYA)
Ruben Frutos, Fiscal Advisory Team, Hazard, Young, Attea & Associates (HYA)
Allan Garde, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District Business & Advisory Services, ACOE
Julia Xu, Director III, District Advisory Services, ACOE

Attachments: Past ACOE & Fiscal Reviews Sent to the OUSD Board

2025-26 OUSD Adopted Budget and LCAP Conditional Approval Letter
2025-26 OUSD Adopted Budget and LCAP Final Approval Letter

2024-25 OUSD Adopted Budget and LCAP Conditional Approval Letter
2024-25 OUSD Adopted Budget and LCAP Final Approval Letter
2024-25 OUSD First Interim Budget Review Letter
2024-25 OUSD Second Interim Budget Review Letter
2024-25 Annual Report Regarding Fiscal Solvency of Oakland USD (AB139)
FCMAT Annual Review January 1, 2025

2023-24 OUSD Adopted Budget and LCAP Conditional Approval Letter
2023-24 OUSD Adopted Budget and LCAP Final Approval Letter
2023-24 OUSD First Interim Budget Review Letter
2023-24 OUSD Second Interim Budget Review Letter
2023-24 Annual Report Regarding Fiscal Solvency of Oakland USD (AB139)
FCMAT Annual Review January 29, 2024

Timeline of OUSD's Recent Board Actions addressing Structural Deficit:

- December 10, 2025 Board Meeting: The Board approved Resolution No. 2526-0177A, Scenario 3, which includes the following actions:
  2025-26 Immediate Emergency Strategies to Restore the Fund Balance

  1) Spending and Hiring Freezes: The Board implemented a hiring freeze and a six-week freeze on new contracts and non-essential expenditures to generate immediate savings.
  2) Mid-Year Reductions: Approximately $17 million in mid-year cuts were approved, including $10 million from hiring freezes and $7 million from reductions to central office and school site budgets.
  3) Revenue Generation: The district is counting on $10 million in new revenue by increasing student attendance by 2%. While attendance is up 1.8% as of December 2025, fiscal experts have warned against relying on these gains as a primary solvency measure.

  Structural "Scenario 3" Plan

  The Board approved a broader $102.5 million reduction plan (Scenario 3) to address the structural deficit for 2026-27:

  1) School Site Reductions: A 7.5% to 10% cut across all school site budgets, totaling roughly $32 million.
  2) Central Office Overhaul: Approximately $21 million to $32 million in total cuts to central office staffing and operations, including legal, finance, and human resources.
  3) Special Education Cuts: A proposed 10%, approximately $12 million reduction in Contribution to Special Education programs.
  4) Accounting Shifts: Shifting $12 million in costs (such as attendance Specialists, Noon Supervisor and certain small school expenses) from the unrestricted general fund to Supplemental/Concentration funding sources.

- Updated Budget Balancing Target:
  The District in its MYP submitted with the 2025-26 First Interim Budget Report indicated that its updated Budget Balancing solutions for 2026-27 are now $103.6M, an increase from the $100M reported by OUSD in October 2025.
- January 14, 2026 Board Meeting:
  The District did not present the short-term impacts for 2025-26 mid-year adjustments at this board meeting as planned. The District approved HYA contract to aid the District with fiscal advice.
- January 20, 2026 Special Board Meeting - Budget Issues
  Interim Superintendent and HYA Fiscal Advisor verbally indicated that the District's financial position appears better than projected at the First Interim; however, no financial information has yet been provided.

2025-26 First Interim Review
Oakland Unified School District

Revenue Projections

Description: OUSD projects its LCFF revenue based on assumptions from the 2025-26 Enacted State Budget and a higher UPC and ADA-to-enrollment ratio than historical averages. Based on ACOE's LCFF revenue analysis, OUSD LCFF revenue may be overstated by a combined $13.0 million over the three fiscal years. OUSD should develop contingency plans to mitigate potential revenue shortfalls if the assumptions are not materialized.

Difference in LCFF Revenue Projections (ACOE vs OUSD)	2025-26	2026-27	2027-28
District's LCFF Calculator - Unrestricted LCFF Revenue without Prior Year Adjustment	$ 490,572,539	$ 505,986,526	$ 522,270,602
District's Calculator - ADA/Enrollment Ratio	90.81%	90.81%	90.81%
ACOE's LCFF Estimates using 2025-26 CALPADS Certified Enrollment & UPC, and District's Enrollment Projections for the subsequent two years	$ 488,332,550	$ 502,000,032	$ 515,564,039
ACOE's LCFF Calculator - ADA/Enrollment Ratio	90.00%	90.00%	90.00%
LCFF Revenue Projections - Difference (ACOE vs District)	$ (2,239,989)	$ (3,986,494)	$ (6,706,563)

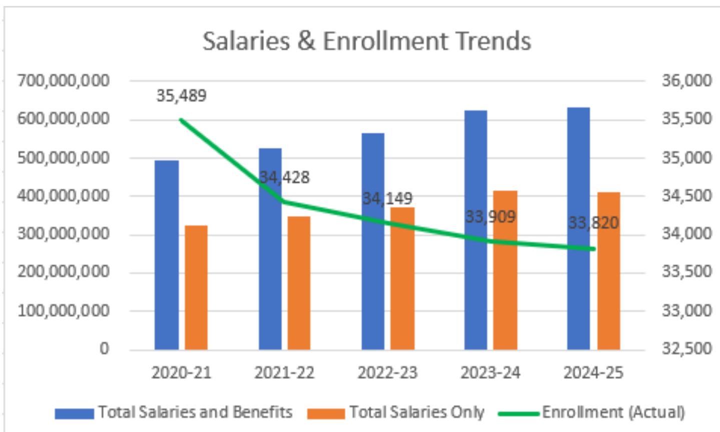
Average Daily Attendance (ADA)

Description: The District projects LCFF revenue based on declining enrollment, using the state's provisions of current year ADA funding for 2025-26, with projected Prior Year ADA for 2026-27, and the 3-Prior Year Average ADA method for 2027-28.

ADA Calculations for Revenue Forecasts	2025-26	2026-27	2027-28
Enrollment	33,655*	33,496	33,337
Unduplicated Pupil Count (UPC)	27,809	27,809	27,809

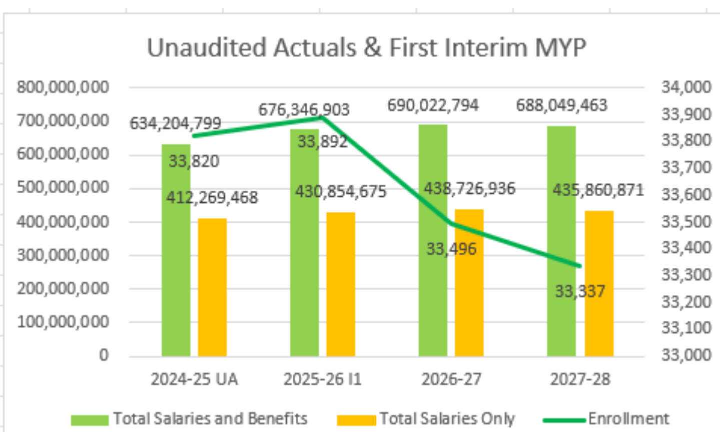
Staffing Costs vs Enrollment Trends - Unaudited Actuals (Fiscal History)

Description: Despite declining enrollment, the District's expenditures continue to increase.



Staffing Costs vs Enrollment Trends - Unaudited Actuals and First Interim MYP (Current Budget Projections)

Description: While the District's MYP projects reductions in Year 3 (2027–28), salaries and benefits costs in 2025–26 and 2026–27 continue to increase compared to 2024–25.



Cash Flow Projection

2025-26 First Interim Review
Oakland Unified School District

Description: Although the District is projected to maintain a positive cash balance at the end of 2025-26, its cash position has declined by $166.4 million, or approximately 47%, from $349.4 million in June 2023 to $183.0 million at the end of June 2026. On September 10, 2025, the OUSD Board approved *Resolution No. 2526-0129* authorizing Temporary Borrowing Between District Funds for Fiscal Year 2025-26. Repayment of all interfund borrowing is required in accordance with *EC 42603*.

OUSD is strongly recommended to closely monitor its cash flow and implement prudent expenditure controls, and align expenditures with available resources to ensure continued compliance with statutory financial obligations. This is particularly important in light of declining enrollment, decreased ongoing revenues, increased costs associated with settlements, and the expiration of one-time funding sources. Maintaining a stable cash position is critical to supporting long-term fiscal sustainability.

Required Board Action

As the Board implements its approved budget solutions, the board will need to ensure that future authorized obligations and compensation increases have corresponding budget tradeoffs. We share this Board's belief in retaining great staff is essential. However, sustainable budgets require tradeoffs.

Required Board Action Budget Reductions and/or Revenue - District's MYP	2025-26	2026-27	2027-28
Reductions to Certificated and Classified Salaries & Benefits due to the expiration of one-time funds in the Restricted Fund		$ (3,312,304)	$ (11,640,604)
OUSD's Ongoing Unrestricted Reductions - Source: MYP		$ (103,560,206)	$ (90,196,432)
Total Needed Budget Reductions/Adjustments in the Submitted Report *		$ (106,872,510)	$ (101,837,036)

Deficit Spending, Increased Contributions, Impact on the Unrestricted General Fund Balance & REU

Description: OUSD's 2025-26 First Interim Budget MYP projects continued deficit spending of $36.8 million in the Unrestricted General Fund for 2025-26, followed by reductions of $103.6 million in 2026-27, and $90.2 million in 2027-28. The Unrestricted General Fund Ending Balance is projected to decline from $55.8 million in the 2024-25 Unaudited Actuals to $29.4 million by 2027-28, assuming the District successfully implements the significant reductions outlined in the MYP.

Should the District not implement the "Other Adjustments" identified in the MYP, the Unrestricted General Fund balance would be negative in both FY 2026-27 and 2027-28, as illustrated in the chart below, and unable to meet the State's minimum reserve requirements

Should the District not implement budget balancing solutions	2025-26	2026-27	2027-28
Unrestricted General Fund - Ending Balance	$ 19,033,045	$ 29,608,106	$ (74,184,347)
Unrestricted Reductions: B10 Other Adjustments* (Budget Reductions in OUSD's budget)		$ 103,560,206	$ 90,196,432
Unrestricted General Fund - Adjusted Ending Balance		$ (73,952,100)	$ (164,380,779)

**Without implementation and following through with the required ongoing reductions, the expenditures would be added back to the budget, reducing fund balance.*

Impact On Reserves/ REU	2025-26	2026-27	2027-28
OUSD's Reserves - *If Reductions Not Implemented*	$ 18,883,045	$ (74,102,100)	$ (164,530,778)
OUSD's REU % - *If Reductions Not Implemented*	1.92%	-7.52%	-16.63%
Is REU Met or Not Met If Reductions Not Implemented	NOT Met	NOT Met	NOT Met

Reminders Due to Qualified or Negative Certification

Non-Voter Approved Debt: *EC Section 42133* prohibits a district from issuing non-voter approved debt (e.g., certificates of participation, capital leases, and TRANs) in 2025-26 and 2026-27, unless the county superintendent determines that the district's repayment is probable.

Employee Negotiations: Collective Bargaining is not settled for the current year. *Government Code Section 3540.2(a)* requires a school district that has a Qualified or Negative Certification to allow the county superintendent of schools at least 10 working days to review and comment on any proposed collective bargaining agreement prior to board action.

Conclusion

At the December 10, 2025 Board meeting, the Board self-certified the District's 2025-26 First Interim Budget Report as Qualified and adopted *Resolution No. 2526-0177A, Scenario 3,* which reflects immediate emergency budget strategies for 2025-26 and a structural plan for 2026-27 to mitigate the structural deficit and prevent fiscal insolvency, expenditure reductions in 2026-27 and additional $90.2 million for 2027-28.

OUSD also indicated at its December 10th board meeting that the short-term impacts for 2025-26 mid-year adjustments will be provided to the Board by the January 14 Board Meeting. From the county's perspective, this timeline necessitates close monitoring and potential intervention to ensure the District takes swift and significant action to meet its fiscal obligations in 2026-27 and 2027-28.

OUSD is required to develop, implement, and follow through on feasible, long-term budgetary commitments to address the structural deficit, stabilize its finances, comply with state requirements, and mitigate the risk of fiscal insolvency.