



Alameda County Office of Education

L. K. Monroe Superintendent of Schools

January 14, 2022

Gary Yee, President
Board of Education
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2021-22 First Interim Budget Report

Dear President Yee,

The Alameda County Office of Education has been working closely over the past several years with Oakland Unified leadership and the Board to support the district's efforts to stabilize the District's long-term fiscal outlook. While we have provided Intensive Support and Technical Assistance to OUSD as well as training and professional development of District staff in the areas of internal controls and budget development, we strongly support the local decision-making of the Board and district leadership to reach our shared goals of financial prosperity for OUSD. We know this work is critical to the District's ability to serve the students and families of Oakland and we are committed to the partnerships we have forged in service of that end.

Pursuant to Education Code (EC) Section 42131(a)(1), at each interim reporting period the governing board (Board) of a school district is required to certify whether the district is able to meet its financial obligations for the remainder of the fiscal year and the following two years based on the financial and budgetary reports required by EC Section 42130 and may also include additional financial information known to the Board.

The Oakland Unified School District (OUSD) filed a QUALIFIED certification of the District's 2021-22 First Interim Budget Report based on standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127. This Qualified certification is assigned to any district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years, including retaining reserves equal to the minimum required Reserve for Economic Uncertainties (REU).

Based on the Alameda County Office of Education's (ACOE) required review and analysis, the First Interim Budget Report approved by OUSD's Board on December 15, 2021, accurately reflects the financial status of the District. ACOE, therefore, concurs with the District's QUALIFIED certification.

Adopted Budget & District's Ongoing Stabilization Arrangements

OUSD's 2021-22 Adopted Budget projected the use of one-time COVID funds totaling \$86.9 million for 2021-22. In addition, ongoing reductions totaling \$20.4 million were projected for 2022-23, and carried forward in 2023-24.

The District's Board Resolution No. 2021-0254, Bridge Plan, approved one-time solutions in 2021-22, recognizing OUSD's need to reduce positions funded by one-time sources in 2022-23 and 2023-24 and the board's "commit[ment] in finding and approving additional budget solutions."

The breakout for 2021-22's stabilization arrangement is as follows:

- \$3.5 million of on-going reductions in Unrestricted Certificated Salaries, as outlined in Board Resolution No. 2021-0254 and the District's Multi Year Projection (MYP).
- \$15.3 million in Restricted Certificated Salaries and \$1.6 million in Restricted Classified Salaries, and associated benefits with the expiration of one-time funding from the Elementary and Secondary Emergency Relief (ESSER) resources and Assembly Bill No. 1840.

As a condition of Approval, in light of OUSD's Lack of Going Concern designation, ACOE required the District to disclose its ongoing stabilization plan to its stakeholders and develop stabilization arrangements addressing the \$20.4 million in ongoing reductions reflected in the District's Adopted Budget MYP for 2022-23 and 2023-24, as Resolution 2021-0254 acknowledged the District's required \$58.6 million reduction in 2022-23. In ACOE's letter to the District approving the 2021-22 Adopted Budget, OUSD was required to submit a detailed list of Board-approved ongoing budget solutions with the District's First Interim Report. Per the District's request, this deadline was extended from December 15, 2021 to January 31, 2022.

To date, the District's Board has approved the following:

- A reduction of 223.6 FTE, equivalent to \$20.1 million, will be eliminated at the end of the 2021-22 fiscal year (if not supported by additional funding sources) per the District's Resolution No. 2122-0020 - Reaffirming Certain Board Actions and Intentions Regarding the Budget for 2021-22 and Beyond and Making Certain Requests of the Alameda County Superintendent. While the District had the positions identified in its Adopted Budget Executive Summary, formal board action and ongoing funding solutions were not provided at that time.
- \$6.0 million in reductions in-lieu of the Cohort 3 school consolidations, Resolution No. 2021-0128D, of which reductions totaling \$5.2 million were identified by the District in the 2022-23 Budget Development and Decision-Making Update.

In addition, Resolution No. 2122-0026 - Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability, was presented on December 15, 2021. This Resolution states that if the Board ultimately enacts all proposed school consolidations, there

would be potentially \$3 million in ongoing savings starting in 2022-23 and an additional \$5 million in ongoing savings starting in 2023-24. Furthermore, an additional \$10 million in one-time funds may be available under AB 1840 if the Board of Education ultimately enacts at least some of the proposed school consolidations this fiscal year.

While OUSD is operating under a new Board of Trustees, it's important to acknowledge the District has had a history of not implementing the board's approved action within the fiscal year approved. Due to the compounding nature of the MYP, the amount of reductions required in order to restore the District's fiscal viability would be smaller if implemented sooner rather than later. It is important to note at this time, it is ACOE's expectation that OUSD remain resolute in its commitment to the District's fiscal solvency and implement the board-approved actions with fidelity.

LCFF Revenue Projections

ACOE's calculations of OUSD's LCFF Revenues are lower than the District's calculations, due to different projections in enrollment, ADA, and Unduplicated Pupil Count (UPC). For 2021-22 enrollment and UPC, ACOE uses data available in CALPADS as of 1/3/2022. While OUSD's enrollment projections for 2021-22 are lower than the latest CALPADS enrollment by 978 pupils, its projected UPC is higher than CALPADS by 159 pupils. Because OUSD uses a higher UPC and lower total enrollment for its 2021-22 LCFF revenue calculation, its Unduplicated Pupil Percentage (UPP), calculated by dividing total enrollment by UPC, is inflated and results in higher supplemental and concentration grant funds than the District is likely to receive this year.

For 2022-23 and 2023-24, ACOE accepted the District's projections of enrollment and Average Daily Attendance (ADA), however we used the UPC equal to the 2021-22 calculation. As a result, the LCFF Revenue Sources calculated by ACOE were lower than the District's by a cumulative total of \$11.1 million for the three fiscal years. Below is a summary of differences between ACOE and the District's FCMAT LCFF Calculators:

		Oakland USD	CALPADS / ACOE	Difference
Enrollment	2021-22	33,457	34,435	(978)
	2022-23	33,208	33,208	-
	2023-24	33,058	33,058	-
Unduplicated Pupil Counts	2021-22	27,000	26,841	159
	2022-23	27,000	25,886	1,114
	2023-24	27,000	25,769	1,231
Unduplicated Pupil Percentage	2021-22	80.70%	77.95%	2.75%
	2022-23	81.31%	77.95%	3.36%
	2023-24	81.68%	77.95%	3.73%
Average Daily Attendance (at 92%)	2021-22	30,781.10	31,680.20	(899.10)
	2022-23	30,551.16	30,551.16	-
	2023-24	30,413.10	30,413.10	-
Total LCFF Revenues (Unrestricted General Fund)	2021-22	\$ 412,425,774	\$ 410,243,750	\$ 2,182,024
	2022-23	\$ 389,415,819	\$ 390,351,872	\$ (936,053)
	2023-24	\$ 403,112,838	\$ 393,307,801	\$ 9,805,037
	Cumulative Total Overstatement			\$ 11,051,008

The District reported differing ADA projections of 30,282 ADA for 2023-24 in the Criteria and Standards. In addition, differing ADA projections of 30,780 ADA for 2022-23 and 30,551 ADA for 2023-24 were reported on the MYP. For LCFF recalculation purposes, ACOE used ADA projections for these years based on the District's LCFF Calculator submitted with the First Interim Budget Report.

As demonstrated in the table above, even though the higher CALPADS enrollment and ADA were used in 2021-22, LCFF Revenues calculations are lower than the District's projections for the three years due to ACOE's lower projected UPC.

Multi-year Budget Projections (MYP) / Deficit Spending / Reserves

While the District projects a net increase in fund balance of \$17.3 million to the unrestricted general fund in 2021-22, it projects net decreases of \$12.3 million and \$7.1 million in 2022-23 and 2023-24, respectively. Furthermore, OUSD projects a total of \$27.1 million in ongoing reductions to Certificated and Classified Salaries in 2022-23 and an additional \$10.0 million in reductions to personnel in 2023-24. These projected reductions have increased from the \$20.4 million projected in the District's 2021-22 Adopted Budget. In addition, the District projects a reduction to Restricted Books and Supplies of \$51.2 million from 2022-23 to 2023-24. With the inclusion of all these reductions, the District is projecting overall reserves at 8.88% for 2021-22, 9.01% for 2022-23, and 8.77% for 2023-24. The cumulative reduction of \$88.3 million, which is primarily due to the

removal of one-time funds, does not appear to address the potential compensation increases and miscellaneous obligations that the District stated in its presentation would require approximately \$40 - \$50 million in additional reductions to accommodate.

Enrollment and Staffing

As noted in ACOE's 2021-22 Adopted Budget Approval letter to the OUSD Board, the District's staffing projections are not in line with the declining enrollment trend. In the District's 2022-23 Budget Development and Decision-Making Update, presented to the Board on December 15, 2021, slide 19 confirms that school site staffing has risen even though enrollment has declined. Per review of pages 20, 22, and 24 of the District's Criteria and Standards presented to the Board for First Interim, total Full-Time Equivalents (FTE) have increased from 4,846 in 2020-21 to 4,923.3 in 2021-22, even though enrollment has decreased by 1,000 pupils (from 35,435 in 2020-21 to 34,435 per the latest CALPADS report). For fiscal years 2022-23 and 2023-24, FTE are projected to decrease by 38.8 from 2021-22 amounts, and enrollment is projected to further decrease by 249 pupils in 2022-23, with an additional decline of 150 pupils in 2023-24. However, this information is not consistent with the salary reductions of \$27.1 million in 2022-23 projected on the District's MYP, as well as Resolution No. 2122-0020 presented on November 03, 2021, which stated the Board's acknowledgement that a total of 223.6 FTE will be eliminated at the end of the 2021-22 fiscal year if not supported by additional funding sources, referenced above.

Debt Issuance

It is critical 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.

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."

Collective Bargaining

Based on slide 34 of the District's First Interim Report – Overview and Context presentation on December 15, 2021, the last ongoing increase was for Oakland Education Association, effective June 30, 2021. However, per the Criteria and Standards presented to the Board for First Interim, the District states that both Certificated and Classified Non-management Labor Agreements have been settled as of budget adoption. Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) requires school districts to publicly disclose their 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.

Board Action and Second Interim Report

While the Governor's state budget proposal in January appears favorable, this proposal may or may not materialize as OUSD anticipates. Oakland USD may have to navigate additional declines in enrollment and ADA with the recent 'sickout' protest, as many in the state swiftly navigate the Omicron variant surge. These protests may lead to higher expenditures that place a financial burden on the District and / or hinder the District in making certain planned budget cuts. The OUSD Board should be prepared with multiple scenarios, ensuring contingency plans are in place that can be swiftly implemented. ACOE expects to receive OUSD's Second Interim Budget Report by March 15, 2022 that includes the implementation of the Board-approved fiscal stabilization plan outlined in the District's Budget Report.

Conclusion

As we continue to navigate our Pandemic normal, mitigating staffing shortages, COVID outbreaks, declining enrollment, as well as student educational loss, ACOE recognizes the pivotal role our educational leaders hold for our community and our children. These continue to be unprecedented times, as our districts move to respond swiftly to new scenarios ensuring the safety of our students and faculty. We appreciate the Board's continued efforts in ensuring it upholds its fiduciary responsibilities while maintaining services for those most in need. ACOE looks forward to working with the OUSD staff as we continue to navigate the effects of the pandemic on enrollment and student learning and work to resolve the District's structural deficit.

The ACOE fiscal team and I would like to acknowledge the difficult financial decisions the District is facing in the near future. 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
Michael H. Fine, Fiscal Crisis and Management Assistance Team
Luz Cázares, Fiscal Oversight Trustee
Dr. Candi Clark, Associate Superintendent of Business Services, ACOE
Shirene Moreira, Chief of District Business and Advisory Services, ACOE
Natalie Cardaniuc, Director II, District Advisory Services, ACOE