January 13, 2023

President Mike Hutchinson
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

RE: 2022-23 First Interim Budget Report

Dear President Hutchinson, Board Trustees and Superintendent,

The Oakland Unified School District (OUSD) filed a POSITIVE certification of the District’s 2022-23 First Interim Budget Report with the Alameda County Office of Education (ACOE). This Report was approved by OUSD’s Governing Board (Board) on December 14, 2022. We appreciate the efforts of the Board and staff in completing this important check and balance to support long term fiscal health. Education Code Section 42131 requires ACOE to review the First Interim Budget Report in accordance with standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127. We undertake this effort in a spirit of partnership, holding the dual roles of supporting the elected board to enact its immediate priorities for our kids while also ensuring that it meets the expectations of our elected state government for academic and financial stability across generations.

Ed Code Section 42131 defines that “A POSITIVE certification shall be assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years.”

Ed Code 42131 requires that “A QUALIFIED certification shall be assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.”

The Ed Code further states that “these certifications shall be based upon the financial and budgetary reports required by Section 42130 but may include additional financial information known by the governing board of the school district to exist at the time of each certification.”

**Certification and Rationale**
ACOE has accordingly analyzed the First Interim Budget Report submitted, as well as developments that took place during the period of review. Given that the Board, which has recently added three new members sworn in on January 9, 2023, arrives with an ambitious agenda including the passage of Resolution 22-2731 Rescission of School Consolidations and plans to significantly increase compensation, but has not yet identified the fiscal impact or a plan
to balance the budget in alignment with their current priorities, we cannot yet confirm the district will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

Based on uncertainties yet unresolved, we have determined the District may not meet its financial obligations in the subsequent fiscal years. Therefore, per EC Section 42131(a)(2) as Alameda County Superintendent of Schools, I must change the District’s certification from positive to QUALIFIED, and to notify the California Department of Education of this action. This classification, which indicates that the district may not meet its financial obligations over the next three years, does not prevent the Board from balancing the budget in alignment with its priorities, but it does emphasize that 1) the fiscal impacts of the priorities need to be identified and considered by the Board, and 2) hard decisions and tradeoffs must be made to do so. In order to be included in future certifications, these decisions must be fully enacted in board-approved resolutions or policies before they can be reflected in multi-year projections. It is critical to acknowledge that the Board’s recent action on Resolution 22-2731 is an example of a historical pattern of Board actions that undo fiscal decisions which have already been made. While the student-centered intent behind the recent decision is clear, the plan to implement it is not. It is impossible to predict the impact of decisions made without fiscal analysis, adding further challenges to the stewardship of a very complex budget.

OUSD stands at a moment of extreme opportunity and extreme risk, some of which I highlight here. An unprecedented infusion of one-time money has created a brief window for changing course while still meeting operating expenses, but can’t cover the ongoing investments we want for our kids and staff looking - as we must - beyond the graduating class of 2025 to their children graduating in 2050. The District is well poised to end 20 years of debt, but doing so will require quick and decisive action on the part of the Board to make changes in what may be the most complex school budget in California. This would set the stage for returning to full local control, but doing so will require passing a fiscal audit that requires that both staff and Board show mastery of strong fiscal practices as they proceed. These are massive undertakings and I applaud the Board for their service in undertaking them for our kids. I believe it is possible for the Board to realign the budget to reflect its priorities if they commit to learning the complex history of today’s budget and making the hard tradeoffs needed for tomorrow’s.

To help identify and address opportunities and risks, ACOE’s financial analysts have outlined in more detail below the following concerns and uncertainties within OUSD’s budget.

**Multyear Projections (MYP)**

Oakland Unified School District submitted a Multiyear Budget Projection with its First Interim Report projecting reserves at or above the minimum reserve requirement. It is important to note that these projections are based on calculations using Average Daily Attendance (ADA) mitigation measures which allow districts with declining enrollment to use the most recent three prior years when calculating their ADA. These measures only soften the short-term fiscal consequences of declining enrollment; they do not eliminate the longer term impact of declining enrollment. The Board has adopted an enrollment stabilization plan; however, effects of the plan have not yet been realized.
While the Multiyear Budget Projection presents a balanced budget for the current year, it also requires the Board to respond to expiring COVID relief funds by enacting $110 million in reductions to the Restricted General Fund in 2023-24 and carry forward those $110 million in expenditure reductions in 2024-25. These COVID resources are being used by OUSD for ongoing operating costs and require OUSD to reduce its Restricted budget by approximately $220 million over the two out-years within its Multiyear Budget Projection. It is critical that the Board and the community understand that these reductions are built into the MYP. The District expressed these reductions may be accomplished by transitioning expenditures from the Restricted to the Unrestricted General Fund, as well as new revenue sources, but did not model this within the MYP. While the budget reflects the net savings of these reductions, the corresponding board actions have not yet taken place.

If OUSD is unable to implement the reductions reflected in the Restricted General Fund, the Unrestricted General Fund will be significantly reduced from its current projections. While OUSD projects to meet its short-term obligations, OUSD does not demonstrate a long-term fiscal plan that is transparent to its community partners, and considers the forecasted economic downturn.

**Historical Enrollment / ADA Decline**

According to California Department of Education (CDE) data, the District’s enrollment has declined from 2017-18 through 2021-22. The District is seeing a partial rebound in 2022-23 as we emerge from the COVID-19 pandemic, but anticipates that enrollment will continue to decline from 2022-23 through 2024-25.

The district is leveraging an amendment to the Local Control Funding Formula (LCFF) calculation which allows school districts (starting in 2022-23) to utilize the greater of the current year, the prior year, or the average of the most recent three prior years’ ADA. In addition, it allows districts to use the 2019-20 attendance rate, if the district is eligible, known as the “ADA Proxy”/ADA Mitigation Funding.

The District has utilized the ADA Proxy to calculate its LCFF revenue, representing approximately $31 million in new revenue over the three years. These funds are unique in that they are provided in advance but will be revoked by the state if all of the conditions are not met in the 2022-23 audit. Therefore the District should be prepared to implement additional budget-balancing solutions to address the revenue recovery.

The use of the three-year rolling ADA average softens the landing for districts in declining enrollment by extending the time before the district experiences a decline in their unrestricted revenues. As described above, this provision helps districts have time to address the structural deficit caused by the decreases to enrollment, it does not eliminate the need for districts experiencing declines to restructure operations for the size of their now lower enrollment/student population.
Fiscal Sustainability Plan
AB1840 required OUSD to develop and implement a Fiscal Sustainability Plan in order to access additional financial support outside of standard school funding sources. On February 8, 2022, the Board adopted Resolution 2122-0030 – School Consolidations for 2022-23 and 2023-24 to meet that requirement. The fiscal savings from this plan was estimated by District staff to be potentially $4.1 million (Unrestricted General Fund) to $14.7 million (Combined Unrestricted and Restricted General Fund). The implementation of this plan provided OUSD with an additional $10 million dollars from the Department of Finance for meeting criteria outlined in AB1840.

On January 11, 2023, the Board adopted Resolution 2223-0036 – Rescission of School Consolidations for 2022-23, without an analysis from District staff of the financial impact of this decision. This action could potentially result in the loss of the additional $10 million apportionment of AB1840 dollars in addition to the District’s projected savings in both the near and long term, which would require further budget adjustments. We are working with state agencies to understand the code requirements of AB1840 and will update the District with our findings.

Collective Bargaining
Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) require school districts to publicly disclose the fiscal implications of collective bargaining agreements. In addition, districts with a qualified certification must provide an analysis of the cost of the settlement and its impact on the district’s operating budget to ACOE for review and comment at least ten days prior to the date the Board will take action on any proposed agreement.

On November 30, 2022, the Board approved a Memorandum of Understanding (MOU) with all bargaining units for a one-time stipend for employees serving as the COVID Safety Lead for their site, without submitting the disclosure of the fiscal implications to ACOE for review. The fiscal impact of this agreement is estimated by the District to be approximately $500,000. As required by code, the Superintendent and Chief Business Official must certify the costs incurred can be met by the district during the term of the agreement, and the school district shall adopt all the budget revisions necessary to meet the costs.

Based on our review of OUSD’s 2022-23 First Interim Budget Report, it appears the District will be able to afford this agreement. Any forthcoming agreements or re-openers, along with the certification of affordability signed by the District’s Superintendent and Chief Business Official, must be provided to ACOE for review and comment at least 10 working days prior to Board action. We share this information with the board as these established standard fiscal practices are critical steps in passing the fiscal audit required to return to full local control.

Debt Issuance
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.”

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 per Education Code Section 17150.1 and Assembly Bill 2197. Please remember to engage us as partners in this work.

**Next Steps**

As the District prepares for its Second Interim Budget Report, staff must engage the Board and the ACOE team in providing the following information by March 1st, unless otherwise indicated or arranged.

- Disclosure of the financial impact the rescission of school closures will have on OUSD’s short- and long-term budget (by January 25 per resolution) followed by how the Board will mitigate the fiscal impact;
- A list of the positions charged to the expiring restricted resources, identifying the new funding source to be used to support positions going forward;
- A Board-approved plan of how the reductions reflected in the Second Interim MYP for 2023-24 and 2024-25 will be accomplished (by March 15, 2023);
- The District consults with the Fiscal Oversight Trustee and ACOE’s Business Office to confirm agreement with the certification of its Second Interim Budget report prior to formal Board action.

In addition to the above, we are approaching the 2023-24 Budget Development cycle which adds 2025-26 to the three year projections. While addressing urgent needs, it is imperative districts ensure an ongoing safe and stable environment for student learning. The Governor’s proposed budget provides for optimistic revenues while factoring in a slowing economy. As we await the potential shift and the possible elimination or reduction of one-time revenues, district boards will need to uphold their fiduciary responsibility by serving their students today, while planning for tomorrow.

**Conclusion**

As stated above, the OUSD budget is almost unfathomably complex. We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work in managing these resources to envision and enact a more equitable and effective education for all of our kids. The opportunities of this moment - including rescinding school closures, ending 20 years of debt, and returning to full local control - inspire great passion but they require even more work to make the hard tradeoffs to meet the needs of both todays and tomorrow's young people. We deeply appreciate the opportunity to consult with Board President Hutchinson and Superintendent Johnson-Trammell as we journey in partnership towards meeting our shared goal of OUSD achieving both educational excellence and fiscal independence. There is hard work to do and hard decisions to be made and we offer you our every support on that path.
In community,

Alysse Castro
Alameda County Superintendent of Schools

cc: Board of Education, Oakland USD
    Dr. Kyla Johnson-Trammell, Superintendent, OUSD
    Lisa Grant-Dawson, Chief Business Official, OUSD
    Tony Thurmond, State Superintendent of Public Instruction, CDE
    Michael H. Fine, Fiscal Crisis and Management Assistance Team
    Luz Cázares, Fiscal Oversight Trustee
    Shirene Moreira, Chief of District Business & Advisory Services, ACOE
    Joan Laursen, Director II, District Advisory Services, ACOE