



September 15, 2021

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

RE: 2021-22 Local Control and Accountability Plan & Adopted Budget Review

Dear President Gonzales:

In accordance with Education Code (EC) Sections 42127 and 52070, the Alameda County Office of Education (ACOE) has reviewed the 2021-22 Local Control and Accountability Plan (LCAP) and Adopted Budget of the Oakland Unified School District (OUSD or District). By statute, the Adopted Budget review must be completed by September 15 of each year, and the LCAP review must be completed by October 8. Based on our review, both the 2021-22 LCAP and Adopted Budget of the OUSD have been **conditionally approved**.

Local Control and Accountability Plan

With regard to our review of the District's LCAP, the Education Code requires the County Superintendent of Schools to approve the LCAP or annual update to the LCAP (Annual Update) for each school district after determining all of the following:

- The LCAP or Annual Update adheres to the template adopted by the State Board of Education (SBE).
- The budget includes expenditures sufficient to implement the specific actions and strategies included in the LCAP.
- The LCAP or Annual Update adheres to the expenditure requirements for funds apportioned on the basis of the number and concentration of unduplicated students pursuant to EC Sections 42238.02 and 42238.03.

Based on our review of the District's 2021-22 LCAP, we have determined that the District is in compliance with the above criteria.

Adopted Budget

Education Code requires the County Superintendent of Schools to approve, conditionally approve, or disapprove the Adopted Budget for each school district after a review that includes

the following:

- Determine whether the Adopted Budget includes the expenditures necessary to implement the LCAP or Annual Update.
- Examine the Adopted Budget to determine whether it complies with the standards and criteria established pursuant to EC Section 33127 and identify any technical corrections needed to bring the budget into compliance with those standards and criteria.
- Determine whether the Adopted Budget will allow the district to meet its financial obligations during the current fiscal year and is consistent with a financial plan that will enable the district to satisfy its multi-year financial commitments.

ACOE determined that the District's 2020-21 Adopted Budget and Multi-Year Budget Projection (MYP) complies with the required criteria. However, there is an underlying concern with the MYP and additional action will be required from OUSD to ensure the District's financial plan addresses its multi-year financial commitments. The following analysis highlights the scope of the review that led to this conclusion.

While OUSD appears able to maintain the reserve for economic uncertainty (REU) for the current and subsequent fiscal years, the District's fiscal solvency is completely reliant upon one-time funding that is set to expire.

OUSD's Multi-Year Budget Projections

The District's projections as of 2021-22 Adopted Budget indicate the 2% reserve for economic uncertainties (REU) will be met for the current and subsequent fiscal years. These projections include reductions to the General Fund's expenditures of at least \$20.4 million in 2022-23 in the following categories:

- \$3.5 million of on-going reductions in Unrestricted Certificated Salaries, as outlined in Board Resolution No. 2021-0254 and the District's 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.

While the current outlook for the 2021-22 State Budget provides some fiscal relief for LEAs across the state, much of the recent funding provided to school districts are one-time in nature to assist LEAs with the effects of the pandemic on safety and student learning. ACOE encourages all districts to ensure one-time funds are not used for ongoing expenditures.

At 2020-21 Second Interim, OUSD projected combined unidentified reductions totaling \$61.8 million in fiscal years 2021-22 through 2022-23. With the addition of the one-time COVID-19 relief funding totaling approximately \$280 million and the recent one-time AB 1840 apportionment of \$16 million to the Unrestricted General Fund, the District’s deficits were concealed. The District was only able to meet its minimum reserve requirement while deferring reductions to the out years with its “Bridge Plan” in fiscal year 2020-21 using one-time funding sources.

ACOE’s Multi-year Budget Projections

The short-term funding solutions allowed the District to present a positive budget; however, ACOE would like to draw attention to the impact these one-time AB1840, ESSER and COVID dollars have at concealing OUSD’s fiscal solvency. Based on ACOE’s analysis, with the removal of these one-time funds and the associated COVID expenditures in 2020-21 through 2023-24, ACOE sees a very different picture. It is important to note that OUSD applied \$65 million in 2020-21 for COVID relief, which helped to increase the District’s beginning fund balance in 2021-22.

If not for one-time funding solutions, the District would very likely have a negative ending fund balance and REU in fiscal years 2022-23 and 2023-24. See the table below for the Combined General Fund:

<u>ACOE Recalculations (Without One-Time Funding)</u>			
	2021-22	2022-23	2023-24
Revenues	603,676,467	602,575,990	612,325,882
Add: LCFF Adj	5,482,875	6,831,608	6,656,438
Total Revenues	609,159,342	609,407,598	618,982,320
Expenditures	691,846,493	677,042,783	684,405,058
Less: COVID-19 Expenditures	86,929,816		
Adjusted for unidentified positions		15,304,283	15,304,283
Adjusted for unidentified positions		1,648,613	1,648,613
Adjusted for unidentified positions		3,471,982	3,471,982
Total Expenditures	604,916,677	697,467,661	704,829,936
Surplus/Deficit	4,242,665	(88,060,063)	(85,847,616)
BFB	76,535,764	80,778,429	(7,281,634)
EFB	80,778,429	(7,281,634)	(93,129,250)
Less: Restricted			
Less: Other Revolving Fund	150,000	150,000	150,000
Total Available EFB	80,628,429	(7,431,634)	(93,279,250)
2% REU	12,098,334	13,949,353	14,096,599
Total Reserves	13.33%	-1.07%	-13.23%

While short-term funding solutions offer one-time relief, OUSD’s structural deficit must be addressed. ACOE acknowledges the Board’s and District’s leadership efforts in presenting the

one-time investments and solutions that address the deficit in the near future. ACOE also acknowledges the Board’s commitment with Board Resolution No. 2021-0254 “to reduce every position funded by one-time funds” and to find and approve “additional budget-balancing solutions for the subsequent two fiscal years (2022-23 and 2023-24) to ensure the long-term fiscal solvency of the District.” However, there is a time-sensitive need for the District to identify specific budget reductions and develop fiscal course corrections that will maintain OUSD’s fiscal stability. Delaying the implementation of corrective budget solutions will limit the District’s ability to make the critical decisions necessary for fiscal solvency. While Resolution No. 2021-0254 acknowledges that there are issues, it is insufficient to address the District’s long-term fiscal stabilization.

Enrollment, Average Daily Attendance (ADA), and Staffing

As communicated throughout the 2020-21 fiscal year, OUSD continues to project declining enrollment for 2021-22 through 2023-24. However, staffing projections, as reported in the Criteria and Standards, have been noted to increase from 2020-21 to 2021-22 and remain constant for 2022-23 and 2023-24, despite the District’s declining enrollment trend. Furthermore, when ACOE reviews the District’s Certificated and Classified combined expenditures in its 2018-19 Unaudited Actuals with the District’s current 2020-21 Unaudited Actuals’ presentation, Certificated and Classified Salaries (not including benefits) have increased from \$285.2 million in 2018-19 to \$325.5 million in 2020-21. With countywide enrollment declines projected beyond most districts’ Adopted Budget assumptions, OUSD must closely monitor its student enrollment and swiftly adjust its budget and staffing accordingly as it strategically plans for the future ahead.

With the 2020-21 pandemic related “hold-harmless” provision for ADA expiring, and with the cumulative impact of two years of declining enrollment, OUSD is faced with a substantial drop in the District’s revenue in 2022-23. Adding further concern, based on ACOE’s preliminary review of OUSD’s Unaudited Actuals, the District’s Unrestricted General Fund balance has decreased from its projected \$71 million at Estimated Actuals, to \$60.4 million at Unaudited Actuals. This drop is without the District reserving any funds for its Health Benefits Governing Board (HBGB) liability as reflected in the District’s Audit Report.

Blueprint for Quality Schools Progress

During the 2018-19 and 2019-20 fiscal years, OUSD made progress towards achieving a more sustainable number of schools in order to improve the District’s fiscal health and school quality. Based on the District’s May 27, 2020 Board presentation, this work has helped OUSD realize \$3 million in cost savings. However, as conveyed in ACOE’s prior correspondence, the same presentation also projected that reducing the number of “unsustainably-sized schools” could save the District as much as \$15 million annually. This area of focus should continue to be part of the District’s considerations including timelines for any actions that the District will take.

The Board of Education adopted Resolution No.2021-0128, Advancing Citywide Plan Work in December of 2020, addressing Board Policy 6006, “Quality School Development: Community of Schools,” the Citywide Plan outlined five areas of work in its strategic plan to address issues of

quality, equity, and sustainability within the District. While the Board's intent per the resolution was to continue with a robust, rigorous, and thoughtful engagement process to improve facilities and ensure OUSD's resources were best directed to the students within its community, these discussions have been postponed since last fall. The resolution set specific timelines for the District to meet certain milestones in addressing enrollment declines, fiscal stability and district size. To date, there has been no further movement in this area with the exception of a newly proposed resolution that proposes to further delay the District's facilities progress for one year. With the underlying fiscal condition of the District, ACOE recommends the associated action outlined in the current resolution not be delayed.

In summary, despite the considerable difficulty of these decisions, as enrollment continues to decline and one-time stabilization funds cease, it is imperative that OUSD continue with urgency and implement action plans that support fiscal sustainability and improved school quality in the 2021-22 fiscal year.

Conditional Approval of the Adopted Budget

The District must develop a short and long-term financial plan based on varying economic assumptions, most notably addressing enrollment volatility. OUSD will be required to implement these plans with fidelity to ensure fiscal solvency during these unprecedented times. Timely and extensive expenditure reductions and other budget-balancing solutions must remain a continued priority, as districts across the state adapt to a new learning environment and work to support its students and staff during the ongoing global pandemic.

We are conditionally approving the District's 2021-22 Adopted Budget, pending receipt and analysis of the following items:

1. The District shall work with the Fiscal Oversight Trustee (Trustee) to review ACOE's internal calculations and assessment outlined in this letter to determine if there are any anomalies unknown to ACOE that may alter the MYP calculation, as well as account for all pending liabilities, settlements, etc. since budget adoption, that could impact the District's current and multi-year projections. The results of this fiscal assessment shall be submitted to ACOE by October 8, 2021.
2. The District shall meet regularly with the Trustee to demonstrate the District's progress in meeting its timeline for implementation of its fiscal solvency plan and the needed ongoing budget-balancing solutions based on the analysis from item 1 above.
3. Resolution No. 2021-0128 Advancing District's Citywide Plan Work outlined specific action steps the district would take to address facilities and/ or budget reductions. If no further action is taken on school facilities in September 2021, Resolution 2021-0128 sets October 2021 as the timeline to address budget reductions. In reviewing the newly

proposed Resolution No. 2122-0128C - Postponing Blueprint Cohort 3 Decision to Fall 2022, it is uncertain if budget reductions will be approved in October 2021 or if the OUSD Superintendent will move forward with addressing facilities should budget reductions not occur in October 2021.

By September 23, 2021, ACOE is requiring the Governing Board to submit in writing the status of Resolution 2021-0128 and address if the following section of the resolution will be adhered to:

“...Should the Board vote against a proposed merger or closure, the Board must approve a resolution (by October 2021) identifying reductions in ongoing General Fund expenditures for 2022-23 that amount to at least the estimated ongoing net savings from that merger or closure; the Superintendent shall implement any mergers and/or closures as proposed unless and until the Board passes such a resolution...”

4. In order to address the structural deficit projected in the MYP in fiscal years 2022-23 and 2023-24, the District shall provide a list of board-approved expenditure reductions or ongoing budget-balancing solutions ensuring clear, transparent actions, as the OUSD board upholds its fiduciary responsibility. ACOE will only accept identified items of action and a corresponding timeline.
 1. By October 5, 2021, the District shall provide the Trustee with a status update on the District's progress toward meeting this goal.
 2. By October 8, 2021, the Trustee shall report to ACOE on the status of the District's draft list of proposed expenditures and whether this District's plan seems attainable in ensuring fiscal solvency.
 3. The District shall provide this Board-approved list to ACOE with the District's First Interim Report on or before December 15, 2021.

In accordance with EC Section 42127(d)(3), on or before October 8, the Board shall review and respond to the recommendations of the County Superintendent of Schools at a regular meeting of the Board. The response shall include any revisions to the Adopted Budget and other proposed actions to be taken as a result of those recommendations.

ACOE will conduct a review of all the items listed above and will make a final determination regarding the Adopted Budget by the statutory deadline of November 8.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. We look forward to our continued

collaboration as we strive to ensure the ongoing fiscal stability of the District in service of the educational success of all Oakland's students.

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
Dr. Ingrid Laniez Roberson, Acting Associate Superintendent of District & School Support, ACOE
Shirene Moreira, Chief of District Business and Advisory Services, ACOE
Natalie Cardaniuc, Director II, District Advisory Services, ACOE