

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

March 1, 2021

Honorable Keely Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Honorable Phil Ting, Chair
California State Assembly Committee on Budget
State Capitol, Room 6026
Sacramento, CA 95814

Honorable Nancy Skinner, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, CA 95814

Dear Director Bosler, Chairperson Skinner and committee members, and Chairperson Ting and committee members:

This letter is submitted for your consideration in accordance with the Fiscal Crisis and Management Assistance Team's (FCMAT) responsibilities regarding the Oakland Unified School District under Assembly Bill 1840 (Chapter 426/2018) (AB 1840).

Background

AB1840

The Legislature approved AB 1840 on August 31, 2018 as a budget trailer bill, and it became effective on September 17, 2018. Among other provisions, AB 1840 implemented several changes in the oversight of fiscally distressed districts and established specific requirements for these districts in exchange for providing financial resources under certain circumstances. This letter is provided in accordance with Education Code Section 42160(d) as established by AB 1840 and outlined below.

AB 1840 changes the former state-centric system to be more consistent with the principles of local control. Several duties formerly assigned to the state superintendent of public instruction (SPI) are now assigned to the county superintendent, with the concurrence of the SPI and the president of the State Board of Education. While AB 1840 does not change the definition of or criteria for fiscal insolvency, it does change the structure of how fiscally insolvent districts are administered once a state emergency appropriation has been made. Before AB 1840, administrators and trustees assigned to districts as a result of an emergency appropriation were referred to as state administrators and state trustees. Subsequent to AB 1840, the new titles are generally county administrator and county trustee, which are the terms used in this letter.

Under AB 1840, the county trustee assigned to the district reports to the Alameda County Superintendent of Schools and no longer reports to the SPI. If the current county trustee elects not to continue, or the county superintendent makes a determination that the county trustee should be replaced, the appointment of the next county trustee would follow the provisions of AB 1840, namely, 1) be selected from a list of candidates identified and vetted by FCMAT, and 2) be appointed jointly by the county superintendent, SPI and president of the State Board of Education.

In addition, AB 1840 established Education Code Section 42160, which provides the following:

(a) For the 2018-19 fiscal year, by March 1, 2019, the Oakland Unified School District, in collaboration with and with the concurrence of the Alameda County Superintendent of Schools and the County Office Fiscal Crisis and Management Assistance Team, shall do both of the following:

(1) Update or develop short- and long-term financial plans based on reasonable and accurate assumptions and current and past year expenditure data.

(2) Review and update school district facilities construction plans to ensure that costs are reasonable, accurate, and align with long-term financial plans for fiscal solvency.

(b) Beginning with the 2019-20 fiscal year, the Budget Act shall include an appropriation for the Oakland Unified School District, if the school district complies with the terms specified in subdivisions (a) and (c), in the following amounts:

(1) For the 2019-20 fiscal year, up to 75 percent of the school district's projected operating deficit, as determined by the County Office Fiscal Crisis and Management Assistance Team, with concurrence with the Department of Finance.

(2) For the 2020-21 fiscal year, up to 50 percent of the school district's projected operating deficit, as determined by the County Office Fiscal Crisis and Management Assistance Team, with concurrence with the Department of Finance.

(3) For the 2021-22 fiscal year, up to 25 percent of the school district's projected operating deficit, as determined by the County Office Fiscal Crisis and Management Assistance Team, with concurrence with the Department of Finance.

(c) Disbursement of funds specified in subdivision (b) shall be contingent on the Oakland Unified School District's completion of activities specified in the prior year Budget Act to improve the school district's fiscal solvency. These activities may include, but are not limited to, all of the following:

(1) Completion of comprehensive operational reviews that compare the needs of the school district with similar school districts and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability.

(2) Adoption and implementation of necessary budgetary solutions (amended in 2020).

(3) Completion and implementation of multiyear, fiscally solvent budgets and budget plans.

(4) Qualification for positive certification pursuant to Article 3 (commencing with Section 42130) of Chapter 6.

(5) Affirmative board action to continue planning for, and timely implementation of, a school and facility closure and consolidation plan that supports the sale or lease of surplus property (amended in 2020).

(6) Growth and maintenance of budgetary reserves.

(7) Approval of school district budgets by the Alameda County Superintendent of Schools.

(d) Funds described in subdivision (b) shall be allocated to Oakland Unified School District upon the certification of the County Office Fiscal Crisis and Management Assistance Team, with concurrence from the Alameda County Superintendent of Schools, to the Assembly Committee on Budget, Senate Committee on Budget and Fiscal Review, and the Department of Finance that the activities described in subdivision (c), as specified in the prior year Budget Act, have been completed. Additionally, by March 1 of each year, through March 1, 2021, the County Office Fiscal Crisis and Management Assistance Team, with concurrence from the Alameda County Superintendent of Schools, shall report to the Assembly Committee on Budget, Senate Committee on Budget and Fiscal Review, and the Department of Finance the progress that Oakland Unified School District has made to complete the activities described in subdivision (c), as specified in the prior year Budget Act.

(e) The activities described in subdivision (c) shall be determined in the annual Budget Act based on joint recommendations from the County Office Fiscal Crisis and Management Assistance Team and the Alameda County Superintendent of Schools. These recommendations shall be submitted to the Assembly Committee on Budget, Senate Committee on Budget and Fiscal Review, and the Department of Finance by March 1 of each fiscal year, through March 1, 2021, in conjunction with the certification described in subdivision (d).

District Overview

Located in the Bay Area of northern California, the district serves approximately 49,245 (35,441 excluding charter schools) students in 83 district-operated schools and 33 district-authorized charter schools. Approximately 50.7% of the district's students speak a language other than English at home; 33% of district students are classified as English language learners. Eligibility for free and reduced-price meals is 74%. The district's unduplicated pupil percentage is 76%. Per its first interim 2020-21 budget, the district is projected to have combined unrestricted and restricted revenues of \$655 million and combined unrestricted and restricted expenditures of \$667 million. The district's unassigned, unrestricted ending fund balance is projected at approximately \$11 million as of June 30, 2021.

Emergency Appropriation, Loan Status and Payment Terms

In 2003, the district could not meet its financial obligations without the assistance of the state. Senate Bill (SB) 39 (Chapter 14/2003) was passed, which authorized a \$100 million cash flow loan for the district. Consistent with practice, SB 39 directed that the superintendent of public instruction assume all of the district governing board's rights, duties, and powers. Full rights, duties and powers were reinstated to the governing board on June 28, 2009, and a state trustee was appointed to provide specific oversight of the district's continued recovery. The state trustee has stay and rescind authority over actions by the governing board.

In 2006, a portion of the state loan was refinanced by the sale of California Infrastructure Economic Development Bank (I-Bank) bonds of \$59.6 million (principal and accrued interest). After the refinancing, the state general fund portion of the loan was \$35 million. The California Department of Education (CDE) reports that as of July 1, 2018, the district owes \$40 million. The payment schedule for the I-Bank portion of the state loan is monthly, July through January, totaling approximately \$3.8 million annually through January 2023. The annual payment on the state general fund portion of the state loan is approximately \$2.1 million, due in June through June 2026. Payments are made through a State Controller's Office intercept of the district's monthly principal apportionment.

The state subsidizes the interest payments on the I-Bank portion of the loan by approximately \$1.7 million per year pursuant to Education Code Section 41329.57(a)(1), which establishes that the effective costs of the

I-Bank financing provided to the district shall be equal to the cost of the original state general fund emergency loan.

Other FCMAT Reviews of the District

In late 2017, the district petitioned the California Department of Finance (DOF) to defer its remaining current year and budget year payments on the outstanding emergency appropriation (state loan) originally authorized in 2003.

In response to the district's petition, the director of the DOF convened a meeting of stakeholders on December 14, 2017. FCMAT provided a brief overview of its August 15, 2017 Fiscal Health Risk Analysis (FHRA) of the district conducted at its request, in which FCMAT concluded that the district showed signs of fiscal distress.

Subsequently, on January 22, 2018, the Alameda County Office of Education and FCMAT entered into a study agreement for FCMAT to provide on-site technical assistance to the district wherein FCMAT was assigned to two phases of work. The first was to review the district's 2017-18 general fund budget and develop a consensus about assumptions, including the values of mid-year reductions. From this base, FCMAT would update the district's 2017-18 cash forecast to determine if it had sufficient cash resources to meet its obligations, including the June state loan payment.

The second was to develop a general fund multiyear financial projection. FCMAT issued reports on this technical assistance on May 31, 2018 and July 2, 2018. The May 31 report concluded the district would have a positive general fund balance and cash flow position on June 30, 2018. The July 2 report made 18 recommendations that would lessen the district's risk of potential insolvency.

When a state administrator was in place (2003-2009), FCMAT conducted regular assessments of the district's operations that were documented in written status reports. FCMAT issued its last comprehensive review report on December 5, 2008, its sixth in the series.

As previously noted, at the request of the district, FCMAT conducted an FHRA of the district in August 2017.

Update Components

This update will include the status of negotiations, board actions taken, a multiyear financial projection, and an update on AB 1840 Benchmarks for the district.

For complete context, readers may want to reference previous FCMAT AB 1840 letters issued for the district. Specifically:

- [March 1, 2019](#)
- [April 24, 2019](#)
- [January 15, 2020](#)
- [March 2, 2020](#)
- [November 4, 2020](#)

Exhibits A through F are available on the FCMAT website, and hyperlinks to each exhibit are provided in this letter.

Status of Collective Bargaining

As of August 1, 2020, all seven of the bargaining units have settled negotiations through the 2020-21 fiscal year. Building and State Construction Trades Council (BCTC), California School Employees Association

(CSEA), American Federation of State, County and Municipal Employees (AFSCME), and United Administrators of Oakland Schools (UAOS) have reopeners for salary in 2020-21.

The Oakland Education Association (OEA) contract is set to expire on June 30, 2021. The current collective bargaining agreement for OEA specifies that negotiations were to resume for reopeners in January 2021. The district presented the union with an initial bargaining proposal on December 18, 2020 ([Exhibit A](#)) and is prepared to begin negotiating a successor agreement. OEA has not prepared an initial bargaining proposal at this time. The remaining bargaining units are awaiting the bargaining results of OEA to begin negotiations.

Board Actions Since September 9, 2020

Response to Conditional Budget Approval

On October 14, 2020, the district board adopted Resolution 2021-0010 ([Exhibit B](#)), which confirmed that the district complied with the two requests of the Alameda County Office of Education to satisfy budget approval. The two items requested were the submission of the unaudited actuals and a revised multiyear financial plan (MYP) including the newly settled negotiations.

First Interim Report

On December 9, 2020, the district’s board approved the first interim report ([Exhibit C](#)) along with Resolution 2021-0139 where the first interim was self-certified as qualified. The county superintendent concurred with the qualified certification. Per the district narrative, the first interim budget includes settled negotiations across all units. The general fund ending balance has a decrease between the original budget and first interim budget projections of approximately \$11 million.

2020-21 First Interim Budget

	Unrestricted	Restricted	Combined
Surplus/Deficit	\$(874,279)	\$(12,531,878)	\$(13,406,157)
Beginning Fund Balance	\$ 33,043,817	\$ 34,533,781	\$ 67,577,598
Ending Fund Balance	\$ 32,169,538	\$ 22,001,903	\$ 54,171,441

At first interim, the district projects \$69,782,294 in deficit spending cumulative over the next three years. The MYP ending fund balance for the 2022-23 year as prepared by the district does not meet the minimum reserve requirement.

Masking the true deficit are negative entries on MYP form Line B10, also known as “other adjustments,” which improve the appearance of deficit spending by \$52 million for the first and second subsequent years combined. Without these entries on line B10, the district’s projected ending fund balance for 2022-23 would be negative by approximately \$47 million. The tables below demonstrate what the ending balances would be with the removal of Line B10, reflecting the true projected deficit spending for the district.

2020-21 First Interim Multiyear Projection (Combined) as Prepared by the District

	2020-21	2021-22	2022-23
Surplus/Deficit	\$(24,453,494)	\$(17,042,730)	\$(28,286,070)
Beginning Fund Balance	\$74,731,090	\$50,187,596	\$33,144,866
Ending Fund Balance	\$50,187,596	\$33,144,866	\$4,858,795

**2020-21 First Interim Multiyear Projection (Combined)
Removing Line B10 "Other Adjustment" Entries**

	2020-21	2021-22	2022-23
Surplus/Deficit	\$(24,453,494)	\$(33,042,730)	\$(64,286,070)
Beginning Fund Balance	\$74,731,090	\$50,187,596	\$17,144,866
Ending Fund Balance	\$50,187,596	\$17,144,866	\$(47,141,204)

The county superintendent concurred with the district’s self-certification of “qualified” on January 14, 2021 and cited several concerns with the district budget. The letter addresses concerns regarding the calculation of LCFF revenue, a potential liability related to the health benefits governing board, lack of progress on the Fiscal Vitality Plan, lack of progress on the Blueprint for Quality Schools, cash flow, deficit spending, and proposed reductions as noted in the assumptions used by the district in developing the MYP. A copy of the county superintendent’s letter is included at the end of [Exhibit D](#).

New Board Member Orientation

With the November 2020 election, the district board installed four new board members. To provide training in governance, a comprehensive board orientation is underway. The orientation began in November 2020 and will continue through May 2021. Topics are as follows:

Date	Topic
November 2020	Initial Orientation
December 2020	Board Role and Legislative Process
January 2021	Budget
February 2021	Charter Schools
March 2021	Bargaining & Superintendent Evaluation/Workplan
April 2021	Academics
May 2021	Facilities

Fiscal Sustainability Plan

On February 24, 2021, the board approved the Fiscal Sustainability Plan, a revision to the Fiscal Vitality Plan. The new plan acknowledges that the Fiscal Vitality Plan contained activities set to conclude by the year 2020. The Fiscal Sustainability Plan provides an assessment of broad areas to be addressed over the next several years. While the prior plan included specific actions and measurable items, the new plan lists areas to be addressed and states that the measurable actions will be identified each May and approved annually by the board in June. A copy of the Fiscal Sustainability Plan is included as [Exhibit E](#).

Updated Multiyear Projection

FCMAT reviewed the district’s first interim MYP and made the following adjustments:

- Using corrections included in the technical letter sent from the county superintendent to the district on February 11, 2021: Lower ADA projections by 114 ADA each year across all three years. See graphic from county superintendent letter below:

	FY 19-20	FY 20-21	FY 21-22	FY 22-23
REVENUES				
ACOE: LCFF Sources	\$379,588,084	\$378,557,700	\$372,657,808	\$371,900,406
OUSD: LCFF Sources	\$279,587,970	\$281,922,315	\$280,886,057	\$289,600,222
	114	(3,375,615)	(8,228,249)	(17,699,816)

- Removal of line B10 “Other Adjustments,” which the district used to reflect anticipated reductions that have neither been identified by the district nor adopted by the board.
- Inclusion of \$16,000,000 in state revenue in the 2020-21 fiscal year to record AB 1840 revenue.

All other assumptions from the district prepared first interim MYP remain intact and are considered reasonable.

Oakland Unified School District			
Multiyear Projection			
	2020-21	2021-22	2022-23
Revenues			
LCFF Sources	\$381,771,406	\$375,871,514	\$375,114,112
Federal Revenues	\$103,833,645	\$70,613,639	\$53,495,624
Other State Revenues	\$101,745,298	\$84,616,470	\$87,374,967
Other Local Revenues	\$80,533,627	\$78,533,627	\$78,533,627
Other Financing Sources	\$264,067	\$264,067	\$264,067
Total Revenues	\$668,148,043	\$609,899,317	\$594,782,397
Expenditures			
Certificated Salaries	\$223,621,057	\$227,947,077	\$229,844,516
Classified Salaries	\$103,863,180	\$94,409,004	\$95,686,300
Employee Benefits	\$182,533,509	\$184,201,493	\$195,914,587
Books/Supplies & Outlay	\$65,182,709	\$57,178,436	\$54,136,531
Services & Operating Expenses	\$81,417,412	\$73,882,322	\$71,323,159
Capital Outlay	\$342,582	\$342,582	\$342,582
Other Outgo & Transfers	\$11,969,366	\$11,969,366	\$11,969,366
Total Expenditures	\$668,929,815	\$649,930,280	\$659,217,041
Net Increase/Decrease	\$781,772	\$(40,030,963)	\$(64,434,644)
Beginning Balance	\$67,577,599	\$66,795,827	\$26,764,864
Audit Adjustment			
Adjusted Beginning Fund Balance	\$67,577,599	\$66,795,827	\$26,764,864
Ending Balance	\$66,795,827	\$26,764,864	\$(37,669,780)

The updated MYP reflects that the district will deficit spend over \$104 million combined in the two subsequent years of the MYP. It is imperative that the district adopt sustainable, long term reductions that can be realized to address the significant structural deficit and return to fiscal solvency.

FCMAT's Projected Deficit Calculation

	2020-21	2021-22
Projected Deficit	\$781,772	\$40,030,963
COE Additional Support/Intervention	N/A	N/A
Projected Revised Deficit	\$781,772	\$40,030,963

AB 1840 Benchmarks

Required Benchmarks

Education Code 42160(c) provides a list of benchmarks to be measured. The benchmarks are examples of activities to improve the district's fiscal solvency, and the district may include them but is not limited to them. Prior to the first AB 1840 March 1 letter in 2019, FCMAT, the county superintendent and the district agreed on the benchmarks that would be monitored. They include required benchmarks derived from code and district-established benchmarks. The county superintendent has taken an active role in helping the district and has created a detailed plan of action that is intended to guide the district toward the goal of achieving long-term fiscal stability and recovery. Together, they are working to identify key areas for improvement based on the benchmarks below. The district has made significant progress in many business areas. The benchmarks are provided below with brief detail of the district's status with regard to each benchmark.

1. Completion of comprehensive operational reviews that compare the needs of the school district with similar school districts and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability.

Status:

In Progress. The district and the county superintendent developed various staffing scenarios for business operation functions in the district that ultimately resulted in the adoption of an organizational structure and staffing plan. The analysis did not include a comparative analysis with similar school districts. A contract has been executed with School Services of California, Inc.; however, no schedule has been set to begin the study.

2. Adoption and implementation of necessary budgetary solutions.

Status:

In Progress. Last fiscal year, the district board adopted detailed, identified cuts to substantiate significant reductions in March 2020. Resolution 1920-0214 (approved in March 2020) provided specific areas for district administration to consider for cost reductions by November 2020. The district reported that due to COVID, many of these strategies were unable to be executed or developed.

Because the district has a significant structural deficit and ongoing salary increases, continued adoption and implementation of budgetary solutions is necessary. The district plans to adopt reductions for the 2021-22 fiscal year on April 28, 2021 that are not included in this analysis or the projected deficit for 2021-22.

3. Completion and implementation of multiyear, fiscally solvent budgets and budget plans.

Status:

In Progress. As has been the district's history, it had limited success with fully implementing and adhering to reductions adopted in prior year. The actions taken in 2019-20 to be implemented in 2020-21 showed promise but momentum has slowed.

4. Qualification for positive certification pursuant to Article 3 (commencing with Section 42130) of Chapter 6.

Status:

Not complete. As of first interim 2020-21, the district self-certified as qualified. This was the seventh consecutive qualified interim report.

5. Affirmative board action to continue planning for, and timely implementation of, a school and facility closure and consolidation plan that supports the sale or lease of surplus property.

Status:

In Progress. Consistent with its efforts to improve school quality and operate a more sustainable number of schools, the district has expanded three schools and is on track to operate five fewer schools than it did in 2017-18. This is a result of board action to consolidate eight schools into four and close another school. Additional actions were expected in the spring of 2020 but did not occur. In November 2020, the board approved a resolution to advance the Citywide Plan previously adopted by the board. The resolution stipulates the next steps the district will follow to continue to expand, redesign, merge, and/or close schools to improve school quality and fiscal solvency.

This is an essential component of the district's fiscal solvency plan, valued at an estimated \$15 million per year in recurring savings once fully implemented.

See further discussion below under District-Established Benchmarks, Citywide Plan.

6. Growth and maintenance of budgetary reserves.

Status:

In Progress. Budget reserves have increased to at or above 3%, which is higher than the statutory minimum of 2% for the district. The district has demonstrated its strong commitment to maintain that reserve by continuing to adopt and implement necessary budget reductions. Multiyear projections reflect a significant structural deficit that must be addressed for maintenance of budgetary reserves to occur.

7. Approval of school district budgets by the county office.

Status:

Complete. After initially approving the budget with conditions, the county superintendent unconditionally approved the district's 2020-21 budget by November 8, 2020.

District-Established Benchmarks

Citywide Plan

On November 12, 2020, the board approved resolution 2021-0128 ([Exhibit F](#)) titled "Advancing District's Citywide Plan Work." Below is a summary of the actions to be taken per the approval of the resolution.

- By April 2021, present the board with an analysis of the impact to school quality and to district finances of the school expansions, redesigns, mergers, and closures from Cohorts 1 and 2.
- By June 2021, present the board with a list of proposed schools to expand, redesign, merge and/or close beginning fall 2022.

- By September 2021, the board shall vote on each proposed expansion, redesign, merger, or closure. 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 the mergers or closures that were not approved.

Continuing on the path to match district facilities to the student enrollment is critical to the fiscal solvency of the district.

Fiscal Vitality Plan

The district’s Fiscal Vitality Plan was introduced on December 13, 2017 and is organized into three segments: Stability (short-term plans), Recovery (medium-term plans) and Vitality (long-term plans). The Fiscal Vitality Plan was created as a response to a FCMAT Fiscal Health Risk Analysis published in August 2017 that demonstrated many areas of need or improvement. The analysis included 22 recommendations for action to help rectify the district’s fiscal health. The county superintendent monitors the progress of the recommendations and works closely with the district on each of the items.

Since the last update, the status descriptions have been changed to reflect the condition of each item more accurately. Many of the recommendations had deadlines that have long passed. For example, the district may have improved in an area, but that same area requires constant monitoring since the district still struggles to maintain its improvement in that area. The status indicates “complete, continuously monitor” in that instance.

The 23 recommendations and the status of each (with original deadline and updated status titles, where indicated) are below:

Recommendation	Status
Chapter 1: Stability (original deadline July 2018)	
Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty	Complete as of July 2019; however, the district must continuously monitor
Institute adjustments to existing central office positions	Complete as of July 2019, need to continuously maintain
Maximize the use of restricted revenue sources	In Progress
Evaluate central office-based contracts and books/supplies for possible freeze and capture of savings	Complete as of May 2020, need to continuously maintain
Pursue capture of donated days and/or furlough	Complete as of July 2019
Adjust school per pupil allocations to capture savings	Complete, need to continuously maintain
Institute closer monitoring of contributions to other programs	In Progress
Update and implement budget forecast and projection practices	In Progress
Review and update cash flow monitoring practices	Complete, need to continuously maintain
Institute immediate protocols to limit and review spending among central office and school sites	Complete as of July 2018, need to continuously monitor
Chapter 2: Recovery (original deadline January 2019)	
Plan for and adopt a balance budget that avoids future deficit spending	In Progress
Establish and conduct zero-based budgeting sessions with all central office practices	In Progress
Research, engage and implement a central office reorganization	In Progress
Institute and conduct monthly central office and school site budget monitoring practices	In Progress
Review, update and implement effective position control practices	In Progress

Recommendation	Status
Develop a process for pre-approval of extra time employee payments	In Progress
Review and implement revised contract approval, processing and management procedures	In Progress
Complete transition to Escape technology system to manage finance and human resource information	Complete, need to continuously maintain
Review and execute on shifts in expense that maximize the use of restricted funds	In Progress
Chapter 3: Vitality (original deadline July 2019)	
Review and engage school district and school leaders to re-establish appropriate budget roles and responsibilities	In Progress
Establish systems for the management and oversight of bargaining agreements	In Progress
Consider and act on recommendations from the Blueprint for Quality Schools review	In Progress

Conditions Required for Disbursement of Funds

The Budget Act of 2020 (AB 89, Chapter 7/2020) amended items of appropriation from the original Budget Act of 2020 (SB 74, Chapter 6/2020), and provides that the disbursement of AB 1840 funds in 2020-21 is contingent on the district's completion of the following:

- The required annual audit for the preceding year, and
- Affirmative board action to update or develop short-term and long-term financial plans based on best practices and reasonable and accurate assumptions.

The required annual audit for the preceding year is normally filed no later than December 15. However, due to the pandemic, Education Code 41020.9 was added effective June 29, 2020 to extend the normal deadline for LEA annual audits from December 15, 2020 to March 31, 2021. Despite repeated representations from district staff of an early audit report, at the time of this report, the district has not completed the annual audit for the 2019-20 fiscal year. It is expected to be presented to the board in mid-March 2021.

Conclusion

The projected deficit for 2021-22 is \$40 million. This amount is nearly 2.5 times the projected deficit for 2020-21 as adjusted from first interim, which is likely to drop to close to zero by June with the infusion of AB 1840 funds already appropriated for 2020-21. While this letter concludes FCMAT's responsibility under AB 1840 with respect to Oakland Unified School District, FCMAT will issue a follow-up letter in the fall of 2021 to report on 2020-21 unaudited actuals and continued progress on the agreed upon benchmarks through the 2020-21 fiscal year.

The district has faced new and continuing challenges in the past year, some due to the pandemic and some due to continuing, inadequate policies, processes and procedures that have existed in the district for many years. Dramatic improvement in many processes and procedures have occurred since AB 1840 was first implemented and the county superintendent's intense and sustained intervention with the district began. However, many unique district policies continue to foster instability and a lack of progress toward recognized best practices. The district has not accomplished what AB 1840 was intended, in part, to facilitate. AB 1840 was designed to provide one-time, fully unrestricted short-term financial relief while the district focused on making meaningful long-term fiscal stabilization decisions for which the benefit would not be fully realized in the short term. The focus on long-term benefits was intended to protect the district from short-term financial realities that would have otherwise consumed its governance and leadership efforts.

The amount of funds provided by AB 1840 over four years is estimated at \$26.5 million. The 2021-22 fiscal year is the last year for such funding. The district has projected multimillion dollar annual deficits for the

years immediately following the expiration of AB 1840 funding. And yet it has not taken the concerted action that would stabilize the district over the long-term.

Examples of policies that create instability include the extreme decentralization of decision making as part of board policy 3150. This policy has compromised the district administration's ability to make a full return to fiscal solvency. It is inefficient and should be scrapped in favor of a more sustainable and realistic approach to the allocation of resources that best serves students. Merely allocating funds to a school site does not mean they efficiently and effectively serve the academic and social/emotional health of students.

The lack of consistent personnel in key administrative positions has also impaired the district's ability to make long term improvements. A bright spot for the district's stability is that the superintendent is completing four years in that role.

The district has also struggled to meet improvement plans as evidenced by the Fiscal Vitality Plan, which was derived from a 2017 FCMAT Fiscal Health Risk Analysis. This plan was to be completed by 2019; however, as of February 2021, only 36% of the tasks have been completed.

Finally, there is a clear lack of commitment by the governance team to implement their own decisions. The most frequent and pronounced example of this is the repeated failure to implement adopted budget adjustments. Painful reductions are debated and finally adopted, then not implemented. This creates distrust regarding actual needs and focuses on the here and now instead of the long-term stability of the district, which ultimately impacts the quality of instructional and student services. Along with these actions, more intensive support from the Alameda County Office of Education will be needed in the coming months and years to prevent district insolvency.

FCMAT would like to thank the staff of the Oakland Unified School District and Alameda County Office of Education for their collaboration in the creation of this letter.

Sincerely,



Tamara Ethier
Intervention Specialist

C: L. Karen Monroe, Alameda County Superintendent of Schools
Brooks Allen, Executive Director, California State Board of Education
Lisa Constancio, Deputy Superintendent, California Department of Education
Chris Ferguson, Program Budget Manager, California Department of Finance
Jessica Holmes, Assistant Program Budget Manager, California Department of Finance
Chris Learned, County Trustee, Oakland Unified School District
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