FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

January 15,2020

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 Holly J. Mitchell, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, CA 95814

Dear Director Bosler, Chairperson Mitchell and Committee Members, and Chairperson Ting and committee members:

This letter is submitted in accordance with FCMAT's responsibilities regarding to the Oakland Unified School District under Assembly Bill 1840 (Chapter 426 / 2018). The intent of this document is to provide an update of events that have occurred since our letter dated April 24, 2019.

This update will include status of negotiations, board actions taken since April 24, 2019, a general fund analysis and a multiyear financial projection prepared utilizing the 2018-19 unaudited actual ending balances, and an update on AB 1840 Benchmarks for the district.

Please note that Exhibits A through L are available on the FCMAT website.

Status of Negotiations

On February 28, 2019, the district reached a tentative agreement with the Oakland Education Association (OEA). Public disclosure documents (Exhibit A) were provided to the Alameda County Office of Education, and a response was filed by the Alameda County Office of Education (included in Exhibit A) on April 15, 2019. The district board ratified the contract on April 24, 2019.

On March 27, 2019, the district reached a tentative agreement with the Service Employees International Union Local 1021 (SEIU). Public disclosure documents were provided to the Alameda County Office of Education on June 14, 2019 (Exhibit B), a response was filed by Alameda County Office of Education (included in Exhibit B) on June 28, 2019, and the district board ratified the contract on July 2, 2019.

The remaining five collective bargaining units have not reached tentative agreement with the district.

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Board Actions Taken since April 24, 2019

Amendment of Classified Layoffs

As reported at the March 4, 2019 board meeting, the district approved resolution 1819-0144 to reduce 257.6 FTE classified positions. Neither calculated cost savings nor identified positions were included as part of the resolution or supporting documentation.

On March 13, 2019, to further refine the necessary reductions established in resolution 1819-0144, the board approved resolution 1819-0098, identifying 148.03 FTE actual positions to be reduced.

Two amendments to resolution 1819-0098 were made since its adoption in March. On April 10, 2019, the board-approved resolution 1819-0098A, which added 8.48 FTE in classified staff reductions, and on April 24, the board approved resolution 1819-0098B (Exhibit C) for an additional 3.16 FTE reduction in classified staff. Although the original target stipulated in resolution 1819-0144 was 257.6FTE, after amended resolution 1819-0098, cumulative identified classified positions reduced total 159.67 FTE to date.

Third Interim/End of Year Projection

On May 22, 2019, the board approved resolution 1819-0207 adopting the district's third interim financial report (Exhibit D). A summary of projected deficit spending and fund balance is shown below.

2018-19 Third Interim Projection

	Unrestricted	Restricted	Combined
Surplus/Deficit	$5,110,178.00	$(27,363,767.00)	$(22,253,589.00)
Beginning Fund Balance	$11,370,175.00	$38,612,892.00	$49,983,067.00
Ending Fund Balance	$16,480,353.00	$11,249,125.00	$27,729,478.00

Resolution to Relocate the Central Office by 2022

On June 5, 2019 the board approved resolution 1819-0221 (Exhibit E) to proceed with permanent housing for the district's central office/administrative center to be located at the Cole campus. The resolution stipulates that Measure J will be the source of funding and/or future bond funds. To consolidate space at the current location located at 1000 Broadway, the district will also utilize $1.5 million from the general fund. The consolidation will reduce expenditures for the district by lowering the lease payment until the move can be accomplished.

The resolution sets November 2019 as a deliverable date for a study and report relating to "efficient ways to address those elements of community-facing services which benefit from central physical locations, such as enrollment and family resource center." The resolution also calls for the formation of a project committee for this project and any other on the capital projects list. As of the release of this letter, the formation of a committee had not been formally announced at a board meeting.

Adopted Budget for 2019-20

The district adopted the budget for 2019-20 (Exhibit F) on June 26, 2019. As a result of the first reading of the budget on June 19, 2019, the board requested a resolution titled "Oakland Unified School District's Commitment to Fiscal Solvency – Fiscal Years 2020-21 and 2021-22." This resolution was approved at the same meeting as the budget and is included as Exhibit G. The resolution calls for the district to identify an additional $10 million in reductions or revenue enhancements by March 2020 for the fiscal year ending 2020-21 and another $10.5 million in reductions or revenue enhancements by March 2021 for the fiscal year ending 2021-22.

At the budget adoption board meeting, Trustee Learned cited concerns about items that were not considered in the original budget. He advised the board to approve the budget on the condition that the staff bring a revision to the board at the regularly scheduled meeting in August. That timeline was not met; however, budget reductions were incorporated into the 2019-20 budget column at the presentation of the 2018-19 unaudited actuals report and outlined in board resolution 1920-0159, which was approved at the same board meeting. The budget reflects less deficit spending than what was projected in the multiyear projection prepared for the third interim.

2019-20 Original Budget

	Unrestricted	Restricted	Combined
Surplus/Deficit	$(480,239.00)	$(254,475.00)	$(734,714.00)
Beginning Fund Balance	$20,574,390.00	$9,423,603.00	$29,997,993.00
Ending Fund Balance	$20,094,151.00	$9,169,128.00	$29,263,279.00

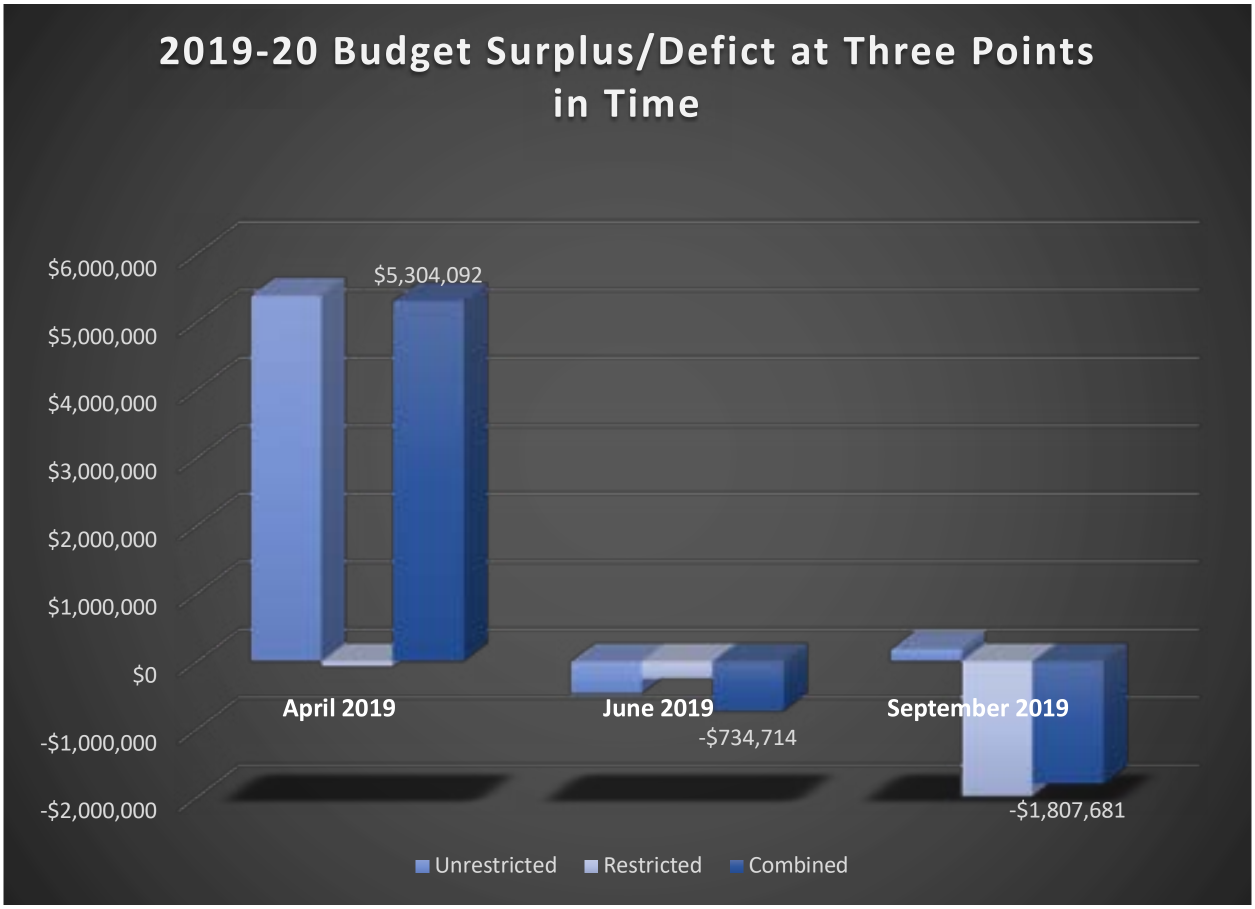
The budget and multiyear projection were prepared with the costs of the settlement agreement with OEA only. The original adopted budget and multiyear projection did not include previously settled agreement terms with SEIU or an estimate for the unsettled remaining bargaining units. As presented, the district is $18,813,833 short of maintaining the required minimum reserve in the second subsequent year.

Multiyear Projection

	2019-20	2020-21	2021-22
Surplus/Deficit	$(734,714.00)	$(8,053,132.00)	$(18,228,542.00)
Beginning Fund Balance	$29,997,993.00	$29,263,279.00	$21,210,147.00
Ending Fund Balance	$29,263,279.00	$21,210,147.00	$2,981,605.00
Components of Shortfall			
Required Reserve			$(12,123,230.00)
Unappropriated/Unassaigned			$(6,540,603.00)
Nonspendable			$(150,000.00)
			$(18,813,833.00)

The Alameda County Office of Education conditionally approved the district's 2019-20 budget pending the analysis of the 2018-19 unaudited actuals, budget revisions, a board-adopted plan with budget balancing solutions and a revised MYP demonstrating minimum reserve requirements of 2% for the current and subsequent years. A copy of the letter is included as Exhibit H.

A chart has been prepared showing the evolution of the 2019-20 budget surplus/deficits at the time of the third interim last May, the original budget last June and the updated budget that was included as part of the unaudited actuals report in September.

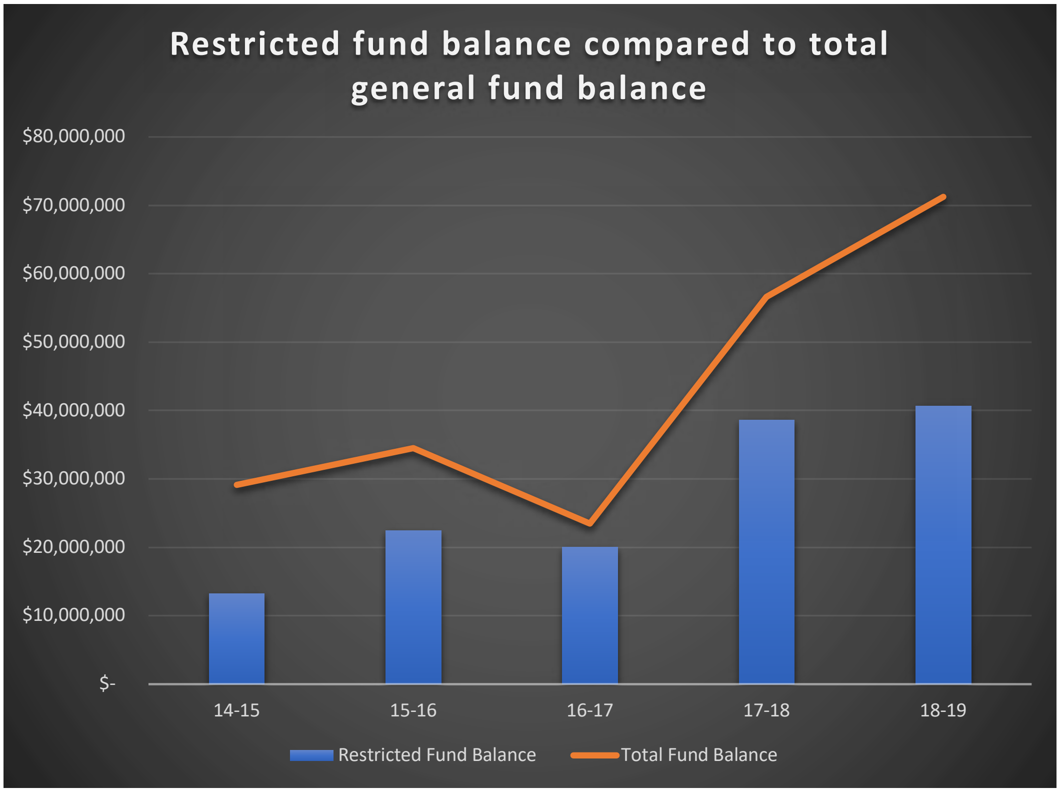


District Response to Grand Jury Investigation and Report

On June 21, 2019 the Alameda County grand jury issued a report on the investigation of Oakland Unified School District titled "The Oakland Unified School District's Broken Administrative Culture – Millions Wasted Every Year." On August 20, following a lengthy board discussion a response to the grand jury report was prepared. At the September 11, 2019 board meeting, the district board ratified the final response to the investigation. Copies of the investigation and the district response are included in Exhibits I and J, respectively.

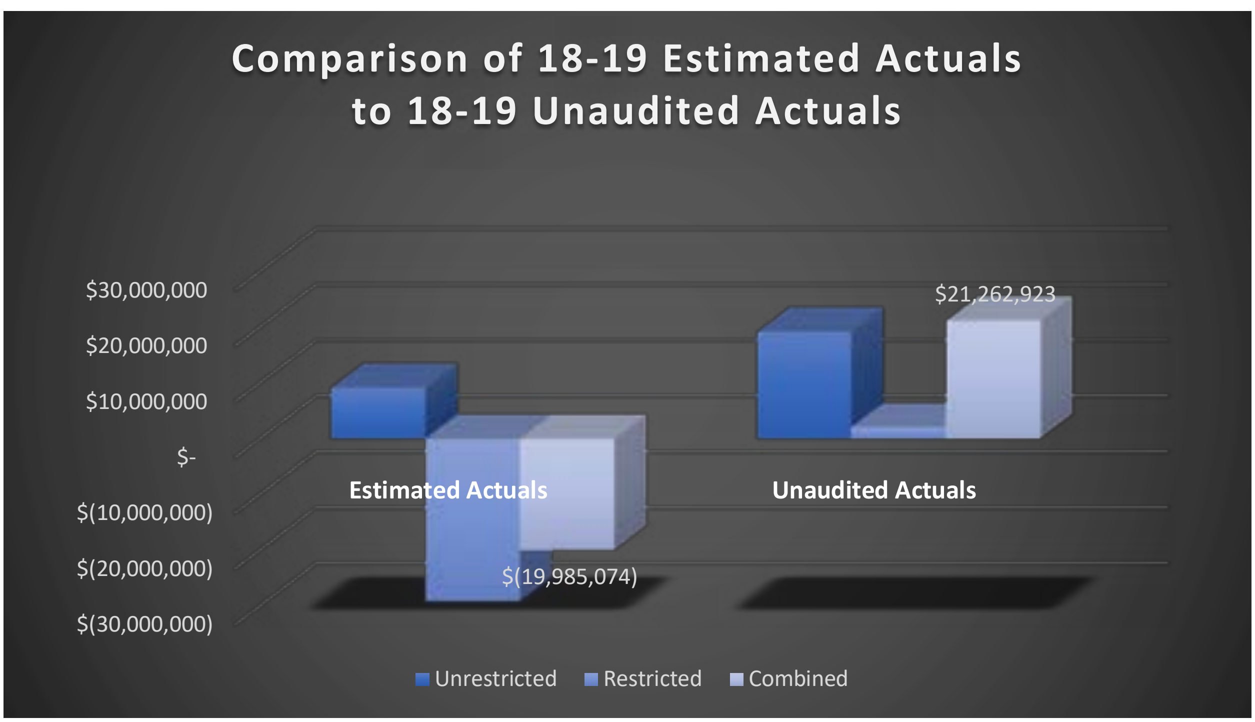
Unaudited Actuals and General Fund Analysis

The composition of the restricted ending fund balance remains unchanged; it consists primarily of LEA Medi-Cal, restricted lottery, routine restricted maintenance and other local resources (primarily parcel taxes). However, the growth in unrestricted fund balance has changed, which is demonstrated in the chart below. The total fund balance grew from approximately $56 million to approximately $71 million primarily due to growth in the unrestricted fund balance.



Unaudited Actuals Compared to Estimated Actuals

An analysis comparing the district prepared 18-19 estimated actuals (presented with the 2019-20 budget in June) and the district prepared 18-19 unaudited actuals (presented in September) was performed. The change from the estimated actuals deficit to the actual ending surplus is a change of $41,247,997 as demonstrated in the chart below.



Multiyear Projection

Using the latest assumptions and ending fund balances from the unaudited actuals report prepared by the district, a multiyear projection has been prepared as Exhibit K. This update reflects an improved beginning fund balance position by means of the growth from the surplus for the year ending June 2019. The deficit spending for 2019-20; however, is higher than projected in both the scenarios included in FCMAT's April 24 letter.

In accordance with Education Code 42160, FCMAT has determined that the multiyear projection reflects a deficit in 2019-20, and positive fund balance in 2020-21 (see table below). The following assumptions were used developing this MYP:

- Multiyear settlements for the Oakland Education Association (OEA) and Service Employees International Union Local 1021 are accounted for in this projection. Five remaining units have not completed negotiations and therefore have not been included in this projection.
- The Consumer Price Index is applied to all non-compensation expenditure lines.
- COLA on state LCFF and AB602 revenues.
- CalSTRS and CalPERS rates according to DOF, or CalSTRS and CalPERS.
- Continued general fund contribution to fund 13—child nutrition.
- Contribution to fund 40 reflecting a small portion of general fund restricted redevelopment funds.
- A 3% increase in health and welfare costs each year.

Fiscal Year	2019-20	2020-21
Projected Deficit	$(15,041,475)	$(23,589,532)
COE Additional Support/Intervention	TBD	TBD
Projected Revised Deficit	$(15,041,475)	$(23,589,532)

AB 1840 Benchmarks

Required Benchmarks

In addition to the district established benchmarks, Education Code 42160(c) provides a list of benchmarks to be measured as a condition of apportionment of one-time funds to assist the district. The benchmarks are listed below along with a brief detail of district status in each:

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:
   Not complete.

2. Adoption and implementation of necessary budgetary solutions, including the consolidation of school sites.

   Status:
   Not complete. Budgetary solutions are provided by means of Fiscal Vitality Plan and district board resolution 18-0041. Implementation is still in progress. Budgetary solutions were

intended to be provided by means of adoption of the Fiscal Vitality Plan and board resolution 18-19-0144. Consolidation of school sites is addressed as part of the Citywide Plan.

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

   Status:
   Not complete. The district faces challenges because of unsettled negotiations, and the ability to maintain statutory required reserves requires budget modifications (increased revenue or decreased expenditures) that remain uncertain.

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

   Status:
   Not complete. As of first interim 2019-20, the district self-certified as qualified.

5. Sale or lease of surplus property.

   Status:
   Not complete. Details available in district benchmark Citywide Plan below.

6. Growth and maintenance of budgetary reserves.

   Status:
   Not complete. While reserves grew with the closing of the 2018-19 fiscal year, the maintenance of budgetary reserves remains a concern for future years.

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

   Status:
   Complete. The county office initially conditionally approved the district's 2019-20 budget; the county superintendent later gave unconditional approval.

District-Established Benchmarks

Citywide Plan

Blueprint for Quality Schools/Establishment of 7-11 Committee

To begin considering disposition and potential uses of the district's specific surplus sites, the board approved resolution 1819-0247 (Exhibit L) establishing a new 7-11 Committee on June 26, 2019. This is a component of the Citywide Plan that was mentioned in prior AB1840 updates on the district. A list of sites and the condition of each is attached to the resolution. The resolution and supporting documentation indicate that this is a first list of potential properties, with a second phase expected.

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 for the district. There are 23 recommendations for action to help rectify the district's current fiscal health. The county office monitors the progress of the recommendations.

Below are the 23 recommendations and the status of each:

Recommendation	Status
Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty	In Progress
Institute adjustments to existing central office positions	In Progress
Maximize the use of restricted revenue sources	In Progress
Evaluate central office-based contracts and books/supplies for possible freeze and capture of savings	In Progress
Pursue capture of donated days and/or furlough	In Progress
Adjust school per pupil allocations to capture savings	In Progress
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	In Progress
Institute immediate protocols to limit and review spending among central office and school sites	In Progress
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	Not Started
Review, update and implement effective position control practices	Not Started
Develop a process for preapproval of extra time employee payments	In Progress
Review and implement revised contract approval, processing and management procedures	Not Started
Complete transition to Escape technology system to manage finance and human resource information	Complete
Review and execute on shifts in expense that maximize the use of restricted funds	Making Progress over last year
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

Conclusion

The district still faces obstacles affecting fiscal solvency. Negotiations with five bargaining units remain unsettled, and even when these conclude, long-term fiscal solvency is questionable without additional budget cuts. The lead positions in the Business Division are filled by interim staff, with contracts terminating at the end of December 2019. The district has been unable to attract and retain permanent qualified staff in the Business Division, which has a severe adverse impact on the reliability and accuracy of the budgetary data.

The district has made progress with the Blueprint for Quality Schools/Citywide plan and has established a 7-11 Committee to further progress with this task.

Sincerely,

Tami Ethier

Intervention Specialist

C: L. Karen Monroe, Alameda County Superintendent of Schools
Karen Stapf-Walters, Executive Director, California State Board of Education
Lisa Constancio, Deputy Superintendent, California Department of Education
Jeff Bell, Program Budget Manager, California Department of Finance
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Chris Learned, County Trustee, Oakland Unified School District
Raul Parungao, Associate Superintendent, Alameda County Office of Education
Kyla Johnson-Trammell, Ed.D., Superintendent, Oakland Unified School District