FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

September 29, 2023

Honorable Joe Stephenshaw, Director
California Department of Finance
1021 O Street, Suite 3110
Sacramento, CA 95814

Honorable Phil Ting, Chair
California State Assembly Committee on Budget
1021 O Street, Suite 8230
Sacramento, CA 95814

Honorable Nancy Skinner, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 502
Sacramento, CA 95814

Dear Director Stephenshaw, Chairperson Ting and Committee Members, and Chairperson Skinner and Committee Members:

This letter is submitted for your consideration in accordance with the Fiscal Crisis and Management Assistance Team's (FCMAT's) responsibilities under Assembly Bill (AB) 181 Section 36, which added Section 42162 to the Education Code (EC), regarding the Oakland Unified School District. EC 42162(d) states:

> 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) have been completed. Additionally, by October 1, 2023, 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).

The intent of this letter is to provide you with FCMAT's findings regarding the district's progress in completing the requirements outlined in EC 42162(c).

On March 31, 2023, FCMAT provided a letter in compliance with EC 42162, a copy of which is available at https://www.fcmat.org/publicationsreports/alameda-coe-oakland-usd- ab-181-letter.pdf. The district did not meet the requirements listed in EC 42162(a)(1)(2) or (3). As such, the district did not receive an additional apportionment of state funds to help it achieve fiscal solvency in 2023-24.

Furthermore, FCMAT and the Alameda County Superintendent of Schools provided joint recommendations for revisions to EC 42162(c), which were not included in any 2023-24 budget trailer bills. The analysis in this letter is based on the original criteria in EC 42162(c), not the criteria recommended by FCMAT in its March 31, 2023 letter.

FCMAT Analysis and Findings Relative to Activities Defined in Education Code 42162(c)

1. Updated 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, with progress updates on each of the recommendations.

   As reported in FCMAT's letter dated March 31, 2023, the district contracted with School Services of California, Inc. for a review of the organizational structure and staffing of its Finance Division, Information Technology Services Department, and Talent Division (Exhibit A).

   The report's findings were presented to the board on December 15, 2021 and included 14 recommendations for the district to consider. Although numerous recommendations were made, the large number of schools relative to comparison districts was mentioned throughout the report as well as the related increased staffing needs, higher level of service required from the central office, and higher number of direct services provided to the schools by the central office. The large number of schools in the district requires more staff, and economies of scale are reduced, leading to less efficient provision of services and increased difficulty in reducing staffing levels.

   On January 25, 2023, the district's governing board approved a contract with Public Works LLC for an analysis of staffing in the Continuous School Improvement (CSI) Division and associated departments. The analysis was completed and presented to the district's governing board on August 23, 2023 and contained 46 recommendations. The district has not yet completed an analysis of the recommendations, nor have its staff made any recommendations for implementing corrective measures. During the presentation of the report to the board (Exhibit B), Public Works categorized the findings and recommendations into the common themes listed below:

   1. Restructure its CSI Division.
   2. Strong need to consolidate small schools to improve CSI services.
   3. Lack of accountability.
   4. Lack of collaboration among CSI departments and with network superintendents.
   5. Lack of clear communication.
   6. Better balance is needed between autonomous site-based management and central office non-negotiables that affect all schools.

   The Public Works team recommended the following:

   - The district superintendent and chief academic officer should create a recommendation implementation plan, including which recommendations will be implemented as is, which recommendations to modify and implement, and/or which recommendations should not be implemented, with a sound rationale for not doing so.

- The board should direct the superintendent to develop an implementation plan and to present that plan to the board within 90 days.
- On a monthly basis, a point person should collect information regarding the status of the recommendations from each of the appointed staff and assemble it into a report for the superintendent and/or board's review.
- At the end of six months or a year, the district should determine the overall rate of implementation and the associated fiscal effects (costs and savings).
- The board should review the implementation progress quarterly.

After the Public Works presentation, the district's board repeatedly stated that they would not close schools but would look at other recommendations in the report.

As noted above, the district has contracted with outside firms to recommend ways to better streamline operations, increase efficiency, and provide better services to students. The district should create and carry out measurable corrective actions based on these recommendations to address the deficiencies noted by the consultants. Other than completing the studies and presenting them to the board, the district has made little progress on this.

Status: Board presentations complete; board and staff response and implementation not complete.

2. Adoption and implementation of necessary budgetary solutions.

   In 2021, the board approved the Fiscal Sustainability Plan, a revision to the Fiscal Vitality Plan. The previous plan included specific actions and measurable items; however, 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 review of board agendas, minutes and, where available, video recordings to date found no evidence that the district has identified measurable actions approved by the board each June.

   On March 9, 2023, the board approved Resolution 2223-0185A.2 - Classified Employees Reduction in Force Due to Lack of Funds and/or Lack of Work (2023/24 Fiscal Year). This resolution reduced staffing by 98.4 full-time equivalent positions. The board also approved Resolution 2223-0040A.2 - Reductions and Funding Shifts, to reduce expenditures by $41.7 million for 2023-24.

   On June 28, 2023, the board approved a settlement with the Oakland Education Association (OEA). In its disclosure of collective bargaining agreement, the district computed the cost of the agreement to be $110.5 million through 2024-25 and stated, "the Board can only afford the Tentative Agreement if additional budget adjustments are made prior to the 2025-26 fiscal year."

   The district states the following in the tentative agreement provided as part of its AB 1200 memo to the Alameda County Office of Education (Exhibit C):

   > It is imperative that the District and Governing Board review the significance of the historic and desired ongoing investment and the requirements for ongoing affordability. This AB1200 disclosure reflects the District will experience a deficit in the 2024-25 year with these additional costs included. Significant increases in ongoing revenue is [sic] not projected at this time, nor are there gains in average daily attendance to enhance the revenue projections. This will require the District

> to make immediate decisions on how it will modify its spending to support these and other ongoing expenses. It is important to note that a key driver in the 2024-25 school year is a projected increase in Health and Welfare Benefits of twenty-five (25) percent.
>
> The fourth year, 2025-26, is therefore significantly at risk without budget adjustments that must be framed by the Fall of 2023 in order to incorporate them into the 2024-25 and multi-year budget which will include 2025-26 and 2026-27. The Board's knowledge and assurance of taking these critical steps is imperative to ensure approval and confidence by the Alameda County Office of Education, County Trustee that the District will make the adjustments required. The Superintendent and Chief Business Officer are signing this document assuring and attesting that the ongoing commitment of affordability will be made.

The Alameda County Office of Education's review of the district's public disclosure of collective bargaining agreement states the following (Exhibit D):

> The Public Disclosure includes $60 million in ongoing budget solutions in 2023-24 (ongoing and therefore carried through 2024-25), with additional (new) planned reductions of approximately $22 million in 2024-25. Per Resolution 2223-0040A of March 9, 2023, reductions and funding shifts, totaling $41.7 million, were approved by the Board. This is significantly less than the $110.5 million in projected budget solutions reflected in the Disclosure. Further, based on the District's recent information, not all revisions were implemented as proposed.

The same document further states:

> In simple terms, the law asks the County Superintendent to answer the question, 'Can the district's budget cover the costs of this agreement today and over the next three years?' The simple answer is, 'Yes for 2023-24, Almost for 2024-25, and No for 2025-26.' The total cost of this agreement over three years is projected at $110.5 million.

Status: Not complete.

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

   On March 9, 2023, the board approved Resolution 2223-0185A - Classified Employees Reduction in Force Due to Lack of Funds and/or Lack of Work (2023/24 Fiscal Year).

   According to the budget documents approved by the board on June 28, 2023, the positions were eliminated from their original funding program; however, they were shifted to other one-time funding sources.

   As noted in item 2 above, the district has approved one collective bargaining agreement without the significant budget reductions needed to support the commitment made in the agreement. Further, as noted below, the district has not settled negotiations with at least four other labor partners. The potential costs of future collective bargaining agreements will further hinder the district's ability to produce fiscally solvent budgets as they will create a need for even more significant budget reductions.

   Status: Not complete.

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

   The district's 2022-23 second interim report, approved by the district's governing board on March 8, 2023, contained a qualified certification. The Alameda County Superintendent of Schools concurred with the district's certification in its letter to the district dated May 3, 2023. As a result, the district was required to prepare and submit a third interim report to the county office. Third interim reports do not require a determination of positive, qualified, or negative; the governing board simply updates the county office regarding the district's current fiscal position.

   The March 8, 2023 qualified certification and subsequent concurrence remain in effect until a new certification is made at the next interim reporting period in December 2023.

   Status: Not complete; the district's fiscal status is qualified.

5. Sale or lease of surplus property.

   The district continues to lease multiple surplus properties. The district has not sold any surplus property or declared any additional properties as surplus since EC 42162 became effective.

   Status: Not applicable at this time.

6. Growth and maintenance of budgetary reserves.

   The district has seen growth or maintenance of budgetary reserves every year since the 2017-18 fiscal year, including in the 2022-23 unaudited actuals presented to the board on September 13, 2023. Beginning with 2023-24 and each year through 2025-26, the district projects a decline in budgetary reserves.

Budget Reserves, 2017-18 through 2025-26

Year	Unrestricted	Restricted	Total
2017-18	$17,974,960	$38,612,894	$56,587,855
2018-19	$30,561,997	$40,683,996	$71,245,993
2019-20	$33,043,818	$34,526,380	$67,570,198
2020-21	$60,443,968	$52,920,201	$113,364,169
2021-22	$92,624,874	$67,517,001	$160,141,876
2022-23	$118,353,704	$164,775,840	$283,129,544
2023-24	$116,650,407	$93,591,743	$210,242,150
2024-25	$121,527,368	$69,518,931	$191,046,299
2025-26	$112,469,989	$48,980,339	$161,450,328

Source: Audited actuals, except for 2022-23, which is based on unaudited actuals, and 2023-24 through 2025-26, which are based on the district's 2023-24 adopted budget and MYP.

According to the district's unaudited actuals presentation to the board on September 13, 2023, the 2022-23 ending balances include recording of the portion of the OEA agreement that is retroactive to the 2022-23 fiscal year.

Not shown in the above table is the effect of the OEA agreement costs approved by the governing board on June 28, 2023 on the 2023-24 adopted budget or subsequent years. Specifically, this will result in the need for a downward adjustment of approximately $110.5

million over the life of the agreement through 2024-25. For additional details, please see the Deficit Analysis section below.

Although the district previously made progress in building reserves, with the recent approval of the agreement with OEA and any forthcoming agreements with other bargaining units, the district will instead spend down its reserve fund balances without identifying a fiscal stabilization plan to support these and other ongoing expenses. As the district noted in its public disclosure of collective bargaining agreement (Exhibit C), it meets its required minimum reserve for economic uncertainty in 2022-23 and 2023-24 but will not meet the minimum reserve requirement in 2024-25. Further, the district's disclosure notes that 2025-26 is "significantly at risk" because of the estimated continuing cost of the settlement without budget adjustments.

Status: Not complete.

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

The district adopted its 2023-24 budget on June 28, 2023. Despite statutory requirements (EC 42127(h)), the district did not make available for public review any revisions in revenues and expenditures that it has made to its budget to show the funding made available by the enacted state budget. The district's governing board was to approve a revision of the district's 2023-24 budget with final state budget information as well as recently-settled collective bargaining agreements (see item 6) at its September 13, 2023 meeting. The board did not act on the revision, resulting in a conditional budget approval by the Alameda County Superintendent of Schools. In its letter dated September 15, 2023 (Exhibit E), the county superintendent requested the following from the district.

> No later than September 27, 2023, at 9:00 pm, adopt by Board action, updates to the 2023-24 LCAP [Local Control and Accountability Plan] and Budget to ensure compliance with the law and previous commitments in the following areas:
>
> 1. LCAP Clarifying Questions: By September 27, 2023, OUSD must adopt, through Board action, the district's response to clarifying questions posed by the Alameda County Office of Education (ACOE) regarding the 2023-24 LCAP.
> 2. LCAP MPP: OUSD must approve an LCAP that reflects expenditure requirements for funds allocated based on the number and concentration of unduplicated students (known as the Minimum Proportionality Percentage or MPP) as required by Education Code Sections 42238.02 and 42238.03.
> 3. LCAP sufficient expenditures: The Board must adopt an LCAP reflecting sufficient expenditures to fully implement the specific actions within the LCAP, using the same budget assumptions and salary calculations as used in the budget to be adopted, including incorporating the impact of the new OEA agreement.
> 4. Budget and MYP: OUSD must approve revisions to the 2023-24 budget and multiyear budget projections (MYP) through 2025-26 that fully incorporate all components of the OEA Collective Bargaining Agreement (CBA), appropriately coded to salary and benefits. Any other known budgetary assumptions impacting OUSD's fiscal status should also be included.

No later than September 20, 2023, at 5:00 pm, Item #4 above must be provided to ACOE staff and OUSD's Fiscal Oversight Trustee for review and confirmation prior to being presented to the Board for approval.

Status: Not complete.

8. Prompt appointment following a competitive process of a permanent, experienced, and highly qualified chief business official for any vacancy of chief business official.

   No vacancy has existed since this provision was adopted in statute. The district's superintendent had intended to eliminate the chief business official position "as it currently exists" at the end of the 2023-24 fiscal year; however, the position was extended for two years and is now set to be eliminated at the end of the 2025-26 fiscal year.

   Status: Not applicable at this time.

FCMAT Analysis and Findings Regarding Activities in Addition to EC 42162(c): Deficit Analysis

FCMAT used the district-prepared 2023-24 original budget multiyear projection as the basis for the deficit analysis portion of this letter. FCMAT reviewed the district-prepared multiyear projection for reasonableness, entered estimates of revenue changes and the recent OEA settlement that were previously not included in the district-prepared multiyear projection, updated the ending balance for 2022-23 to match the unaudited actuals, and validated the assumptions as follows:

Assumptions	2023-24	2024-25	2025-26
Enrollment	33,683	33,258	32,832
ADA	30,047	29,663	29,289
Attendance Factor	89.21%	89.19%	89.21%
Unduplicated Percentage	79.26%	79.76%	80.08%
Statutory COLA	8.22%	3.94%	3.29%
Step and Column-Certificated	2.00%	2.00%	2.00%
Step Movement-Classified	2.00%	2.00%	2.00%
STRS Contribution Rate Increase*	0.00%	0.00%	0.00%
PERS Contribution Rate Increase*	1.31%	1.02%	0.60%
Mandatory Benefits – Certificated	5.03%	5.03%	5.03%
Mandatory Benefits – Classified	11.23%	11.23%	11.23%
Health Benefits	13.00%	25.00%	25.00%

* Year-over-year rate change

General Fund Multiyear Projections (Unrestricted and Restricted)

FCMAT used the district-prepared 2023-24 adopted budget as the basis for the deficit analysis portion of this letter. FCMAT modified the district's multiyear projection (MYP) as follows:

- Updated the district's LCFF calculation to include 2022-23 second interim reporting period (P-2) data as well as a correction to duplicated transitional kindergarten data. The assumptions in the table above were found to be reasonable but were updated as part of the inclusion of P-2 information.

- Included estimated revenue for the equity multiplier, based on 2021-22 stability rate data and 2021-22 P-2 apportionment data. Final funding will be based on 2022-23 stability rate data and 2022-23 P-2 apportionment data.
- Included Arts and Music in Schools Funding Guarantee and Accountability Act (Proposition 28/2022, as amended).
- Included remaining unrecorded revenue for the arts, music and instructional materials discretionary block grant, approximately 50% of allocation less reduced rate adjustment.
- Included a reduction for the learning recovery emergency block grant.
- Included district estimates for the settlement with OEA in 2022-23, 2023-24 and 2024-25. FCMAT estimated the ongoing cost of the settlement in 2025-26 for MYP purposes. All costs are modeled in salaries but include both salary and benefit costs.

The revenue adjustments described above do not materially improve or diminish the district's fiscal standing. However, the OEA settlement amounts decrease the estimated ending fund balance as described in item 6 above.

FCMAT General Fund Multiyear Financial Projection (Unrestricted and Restricted)

	2022-23	2023-24	2024-25	2025-26
Revenues and Other Financing Sources				
LCFF Sources	464,182,315.00	489,627,658.00	491,595,981.00	496,381,379.00
TK Add-On Correction	-	(1,826,537.00)	(2,056,711.00)	(2,157,060.00)
2022-23 P-2 Data Update	-	(2,608,461.00)	(2,718,716.00)	(2,783,030.00)
Federal Revenue	118,465,167.00	109,836,611.00	56,414,000.00	58,033,869.00
Other State Revenues	210,744,327.00	122,422,819.00	143,807,337.00	147,501,333.00
LCFF Equity Multiplier	-	3,479,948.00	3,617,058.00	3,736,059.00
Arts and Music in Schools -Funding Guarantee and Accountability Act (Prop 28/2022, as amended)	-	5,817,570.00	5,817,570.00	5,817,570.00
Arts, Music, and Instructional Materials Discretionary Block Grant	-	9,112,025.00	-	-
Learning Recovery Emergency Block Grant	-	(7,785,114.00)	-	-
Other Local Revenues	88,078,760.00	87,096,328.00	86,891,845.00	86,949,353.00
Other Financing Sources				
Transfers In	-	-	-	-
Other Sources	404.00	-	-	-
Contributions	-	-	-	-
Total, Revenues	881,470,973.00	815,172,847.00	783,368,364.00	793,479,473.00
Expenditures				
Certificated Salaries	257,039,184.00	234,235,062.00	232,626,486.00	235,446,404.00
OEA Settlement	-	39,210,534.00	39,751,435.00	41,341,492.00
Classified Salaries	116,219,322.00	120,883,304.00	113,309,948.00	115,497,614.00
Employee Benefits	191,841,193.00	212,886,449.00	227,828,411.00	238,435,603.00
Books and Supplies	26,219,946.00	77,128,733.00	76,479,658.00	78,129,103.00
Services and Other Expenditures	143,055,046.00	146,081,769.00	135,714,952.00	139,007,621.00

	2022-23	2023-24	2024-25	2025-26
Capital Outlay	2,521,195.00	3,980,589.00	1,323,473.00	1,323,473.00
Other Outgo (excluding Transfers of Indirect Costs)	11,927,469.00	8,988,762.00	8,988,762.00	8,988,762.00
Other Outgo - Transfers of Indirect Costs	(879,012.00)	(1,366,676.00)	(1,366,676.00)	(1,366,676.00)
Other Financing Uses				
Transfers Out	5,900,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Other Uses	-	-	-	-
Total, Expenditures	753,844,343.00	845,028,526.00	837,656,449.00	859,803,396.00
Net Increase (Decrease) in Fund Balance				
Net Increase (Decrease)	127,626,630.00	(29,855,679.00)	(54,288,085.00)	(66,323,923.00)
Fund Balance				
Beginning Fund Balance, as of July 1 (Unaudited)	160,141,875.00	283,129,544.00	253,273,865.00	198,985,780.00
Audit Adjustments/Other Restatements	(4,638,961.00)	-	-	-
Ending Fund Balance, as of June 30	283,129,544.00	253,273,865.00	198,985,780.00	132,661,857.00

The district has not yet settled with the following bargaining units beyond 2022-23, so no estimated expenditures for these future settlements are included in the projection:

United Administrators of Oakland Schools

Building and State Construction Trades Council

Teamsters

Management/confidential

Any settlements reached with these groups may have implications for the other bargaining units that have already settled (e.g., because of the expectation of “me too” provisions in negotiations). Further, all negotiations that are not settled have implications for the district’s projected expenditures and therefore also for its projected ending fund balances.

Conclusion

The district has made minor progress toward improving fiscal solvency by implementing the adjustments in Resolution 2223-0040A and completing the efficiency report on the Information and Technology Services Department and the Talent Division. However, its delayed development and communication of quality financial projections, as evidenced by the conditional approval of its budget and lack of 45-day budget revision, indicates that the district is making major financial decisions with limited and outdated financial information. As agreed upon by both district leaders and the county superintendent of schools, the district has entered into an agreement with one labor partner that will make the district unable to meet its projected financial obligations in the two subsequent fiscal years unless it implements further budget reductions. Agreements with other labor partners have not been reached but will likely further diminish the district’s fiscal standing in a similar manner without further budget reductions.

Essential to the district’s success will be identifying and implementing a comprehensive budget reduction plan that resolves the district’s structural deficit spending pattern. The governing board has not agreed on how to achieve this and has been unable to provide unified, timely guidance to district leaders for implementation. The lack of a comprehensive stabilization plan has resulted in short-term spending adjustments, often made period by period, without regard to the larger context of the district's status or a goal of stabilization. This has reduced or eliminated the positive compounding effect that timely adjustments would provide and has hindered the district's ability to develop and provide timely, reliable financial information for major decision-making. Complete implementation of a fiscal stabilization plan to greatly reduce or eliminate the district's structural deficit is imperative.

Sincerely,

R Montalbano

Robbie Montalbano, CFE
FCMAT Intervention Specialist

C: Brooks Allen, Executive Director, California State Board of Education

Chris Ferguson, Program Budget Manager, California Department of Finance

Amber Alexander, Assistant Program Budget Manager, California Department of Finance

Abel Guillen, Deputy Superintendent, California Department of Education

Elizabeth Dearstyne, Director, School Fiscal Services Division, California Department of Education

Yong Salas, Consultant, Senate Budget and Fiscal Review Sub-Committee #1 – Education

Erin Gabel, Consultant, Assembly Budget Sub-Committee #2 – Education Finance

Alysse Castro, Alameda County Superintendent of Schools

Luz Cázares, County Trustee for Oakland Unified School District

Kyla Johnson-Trammell, Superintendent, Oakland Unified School District

Exhibits

Exhibit A: School Services of California, Inc. Comparative Organizational Structure and Staffing Review

Exhibit B: Public Works LLC report on Continuous School Improvement Division Redesign Overview

Exhibit C: Tentative Agreement with the Oakland Education Association

Exhibit D: Alameda County Office of Education Review of Oakland USD Public Disclosure of Collective Bargaining Agreement

Exhibit E: Alameda County Office of Education September 15, 2023 Letter to Oakland USD regarding LCAP