



May 3, 2023

Dr. Kyla Johnson-Trammell, Superintendent  
Members of the Board of Education  
Oakland Unified School District (OUSD)  
1000 Broadway, Suite 680  
Oakland, CA 94607

RE: 2022-23 Second Interim Budget Report

Dear Superintendent and Members of the Board,

OUSD filed a QUALIFIED certification of the District's 2022-23 Second Interim Budget Report. This report, which covers the period from July 01, 2022, to January 31, 2023, was approved by OUSD's Board of Education on March 8, 2023. *Education Code (EC) Section 42131 requires ACOE to review the Second Interim Budget Report and to approve or disapprove the certification after we determine...*

- *that it complies with standards and criteria for fiscal stability adopted by the State Board of Education pursuant to EC Section 33127 and identify any technical corrections needed to comply with these standards,*
- *whether the projected budget will allow the district to meet its financial obligations during the current fiscal year and two subsequent fiscal years.*

Based on our review of OUSD's Second Interim Budget Report ACOE concurs with the District's QUALIFIED certification. Additional analysis and recommendations:

- District's Response to First Interim Board Letter "Next Steps"
- Enrollment & Average Daily Attendance (ADA)
- Multiyear Projections (MYP), Deficit Spending & Reserves

The following additional guidance applies to districts in Qualified status:

- Collective Bargaining
- Debt Issuance
- Board Action and Third Interim Report

### **District's Response to First Interim Board Letter "Next Steps"**

In the First Interim Board Letter dated January 13, 2023, OUSD needed to address the following items by March 1, 2023:

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

On January 25, 2023, the District presented to the Board the estimated financial impact of the rescission of school closures, which was estimated in the staff report as "at least \$5.14 million." On March 9, 2023, the Board approved Resolution 2223-0040A Proposed Adjustments for 2023-24 which outlined a plan of funding shifts, reductions in ongoing expenditures through position reductions and eliminations, reductions in ongoing non-staffing costs, and the use of one-time money to pay for ongoing expenditures. In addition, on March 9, 2023, the Board approved Resolution No. 2223-0185A.2 Classified Employees Reduction in Force Due to Lack of Funds and/or Lack of Work (2023/24 Fiscal Year) which had a net reduction of 98.4 full-time equivalents (FTE). It is important to note that the district has not yet completed the process of fully enacting these resolutions.

OUSD's Business Office engages with ACOE and the Fiscal Oversight Trustee on a bi-weekly basis, and the District's self-certification as qualified for Second Interim was confirmed in advance. Therefore, we confirm that OUSD has met the requirements of the First Interim request and appreciates the District's partnership.

### **Enrollment & Average Daily Attendance (ADA)**

The majority of the districts in the State have been experiencing declining enrollment over the last two years and the trends are projected to continue. According to California Department of Education (CDE) data, OUSD's enrollment has declined approximately 8% from 2017-18 through 2022-23. The District anticipates that enrollment will continue to decline through 2024-25, as shown below:

Fiscal Year	CALPADS	Year-over-Year Difference	% Difference
2017-18	37,096		
2018-19	36,524	(572)	-1.54%
2019-20	36,154	(370)	-1.01%
2020-21	35,489	(665)	-1.84%
2021-22	34,428	(1,061)	-2.99%
<b>2022-23</b>	<b>34,122</b>	(306)	-0.89%
<b>2023-24</b>	<b>33,683</b>	(439)	-1.29%
<b>2024-25</b>	<b>33,258</b>	(425)	-1.26%

OUSD’s Second Interim Budget Report presented to the Board outlines revenue projections based on current CALPADS enrollment and the three-year rolling average ADA calculation. The Funded ADA is projected to decline in 2023-24 and 2024-25, as illustrated below:

District LCFF Calculations - Enrollment & ADA				
	2022-23	2023-24	2024-25	
Enrollment	34,122	33,683	33,258	
UPP	27,201	26,852	26,502	
Actual ADA	30,438.86	29,668.14	29,288.14	
Funded ADA	33,152.46	32,093.32	30,833.19	

*CAUTIONS: The District is currently leveraging a legislative amendment to the Local Control Funding Formula which allows the use of the three-year rolling ADA average which softens the landing for districts with declining enrollment, which means OUSD is receiving funding for over 3000 more students than are presently served. In addition, the District has utilized the ADA Proxy to calculate its LCFF revenue, representing approximately \$35.9 million in new revenue over the three years. This apportionment is provided in advance but will be revoked by the state if all of the conditions are not met in the 2022-23 audit. The District should be prepared to implement additional budget-balancing solutions to address potential revenue recovery.*

*These ADA mitigation provisions help districts have time to address the structural deficit caused by the decreases in enrollment, but do not eliminate the need for districts experiencing declines*

to restructure operations for the size of their now lower enrollment/student population. The time to act is now. Under Resolution 2223-0036, the Board has directed the Superintendent to present options for a new sustainable community schools redesign process by May 31, 2023. The requirements of AB1912 provide for a detailed equity audit and community engagement cycle for making thoughtful and equitable decisions about restructuring. Pandemic funds have provided declining enrollment districts with a significant buffer of time to make long term plans.

**Multiyear Projections (MYP), Deficit Spending & Reserves**

The District’s MYP submitted with the Second Interim Report includes budget adjustments of \$30.1 million in 2023-24 and \$16.5 million in 2024-25. The District is planning for deficit spending in the Unrestricted General Fund of \$17.9 million in 2022-23, with surpluses of \$27.4 million and \$11.6 million in 2023-24 and 2024-25, respectively. Based on the funding shifts and reductions approved by the Board of Education on March 9<sup>th</sup>, the District’s reserves are projected to remain above the minimum required Reserve for Economic Uncertainties (REU) of 2% in 2023-24 and 2024-25. However it is critical to emphasize that the details of the reductions and shifts have yet to be adopted and enacted, which makes multiyear projections even more uncertain than usual.

Subsequent to the submission of the District’s Second Interim Budget Report to ACOE, OUSD identified that the MYP was missing the projected increases to Health and Welfare Benefits of 15% in 2023-24 and an additional 8% benefit increase in 2024-25. The revised MYP provided by the District shows a negative fiscal impact of \$22.6 million to the Unrestricted General Fund, as shown below:

**Oakland Unified – MYP, Reductions, & Deficit Spending**

<b>2<sup>nd</sup> Interim Budget Report - updated with H&amp;W</b>	2022-23	2023-24	2024-25
<b>Increases</b>			
Budget Reductions-Certificated Salaries (Unrestricted)		(\$12,733,159)	(\$1,214,370)
Budget Reductions-Certificated & Classified Salaries (Restricted)		(\$17,377,019)	(\$15,318,372)
General Fund Surplus (Deficit) (Unrestricted)	(\$17,901,138)	\$27,418,305	\$11,605,703
General Fund Ending Balance (Unrestricted)	\$74,723,737	\$102,142,042	\$113,747,745
Fiscal Impact of H&W Increases on Unrestricted General Funds	-	(\$6,263,624)	(\$16,368,937)
Updated General Fund Ending Balance (Unrestricted) after H&W adj.	\$74,723,737	\$95,878,418	\$97,378,808
REU (Reserve for Economic Uncertainties) Requirement	Met	Met	Met

ACOE recognizes the District is working on revised budget assumptions and financial data and expects to see the fiscal impact of these known assumptions demonstrated in the District's Third Interim MYP submitted on or before June 1st.

### **Collective Bargaining**

Government Code (GC) Section 3547.5 and Assembly Bill (AB) 1200 (Statutes of 1991, Chapter 1213) require school districts to publicly disclose the fiscal implications of collective bargaining agreements. In addition, as a district with a qualified certification, OUSD must provide an analysis of the cost of the settlement and its impact on the district's operating budget to ACOE for review and comment at least 10 days prior to the date the Board will take action on any proposed agreement. As required by code, the Superintendent and Chief Business Official must certify the costs incurred can be met by the district during the term of the agreement, and ***the school district shall adopt all the budget revisions necessary to meet the costs.***

As a district with a qualified certification, any forthcoming collective bargaining agreements or re-openers, along with the certification of affordability signed by the District's Superintendent and Chief Business Official, must be provided to ACOE for review and comment at least 10 working days prior to Board action. It is important the District ensure all known budget assumptions, as well as the fiscal impact of these assumptions, are reflected in the District's financials prior to approval of any tentative agreements. As a condition of AB1840 fiscal oversight, it is also required the District share all preliminary tentative settlements, as well as the proposed fiscal impact of these agreements with the Fiscal Oversight Trustee prior to public disclosure. These standard fiscal practices are critical steps in meeting the Board's goal of passing the fiscal audit required to return to full local control.

### **Debt Issuance**

According to EC Section 42133(a), "a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year ***or in the next succeeding fiscal year,*** certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district ...unless the county superintendent of schools determines... that the district's repayment of that indebtedness is probable."

As a district with a qualified certification, it is critical that any debt instruments that do not require the approval of the voters of OUSD are submitted to our office at least 30 days prior to the District's Board action, per EC Section 17150.1 and AB 2197. Please remember to engage us as partners in this work.

### **Board Action and Third Interim Report**

Pursuant to EC Section 42131, as a district with a qualified certification, OUSD shall provide to ACOE and its state partners, a Board-approved Third Interim Budget Report **no later than June 1, 2023**, with the District's most current known projections through June 30, 2023, for the period ending April 30, 2023. ACOE expects the District's Third Interim Budget Report to include any recent Board-approved actions as well as any necessary and sufficient budget solutions to return the District to a path toward a positive certification.

### **Summary**

We are approaching the 2023-24 Budget Development cycle which adds 2025-26 to the MYP. As the State is projecting a significant shortfall in its revenues in 2022-23, the Legislative Analyst's Office (LAO) has indicated that the 2023-24 Cost of Living Adjustment (COLA), the critical factor for LCFE revenue calculations, may not be fully funded. While awaiting the potential shift and the possible elimination or reduction of one-time revenues, districts will need to carefully monitor their enrollment and ADA, and respond appropriately to legislative changes to revenues.

We want to acknowledge and express our appreciation to the District staff, the Board, and the community for their continued diligence and hard work. If you have any questions or concerns regarding our review process, please feel free to reach out to my office at (510) 670-4140.

In community,



Alysse Castro  
Alameda County Superintendent of Schools

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