



OAKLAND UNIFIED
SCHOOL DISTRICT
Community Schools, Thriving Students

Fiscal Vitality Plan Update



2018-2019

Board of Education
Special Meeting
March 4, 2019

TABLE OF CONTENTS

| | |
|------------------------------|-------------|
| OUR NORTH STAR | 3 |
| INTRODUCTION | 4 |
| BACKGROUND | 5 |
| EXECUTIVE SUMMARY | 10 |
| UPDATED FISCAL VITALITY PLAN | 17 |
| FACILITIES SPENDING PLAN | 40 |
| APPENDICES | 43 2 |

OUR NORTH STAR

VISION: All OUSD students will find joy in their academic learning experience while graduating with the skills to ensure they are caring, competent, fully-informed, critical thinkers who **are prepared for college, career, and community success.**

Oakland graduates will face a rapidly changing world that their grandparents would scarcely recognize. However, Oakland graduates will be ready to thrive in this world because they will be:

- **Resilient Learners** who cultivate positive identity based on personal and cultural assets;
- **Collaborative Teammates** who communicate clearly and effectively, honor others, and build networks;
- **Community Leaders** who analyze complex issues with a race, gender, and equity lens and take action to address societal issues;
- **Critical Thinkers** who demonstrate mastery of college and career skills and present evidence based arguments using various sources, and;
- **Creative Designers and Problem Solvers** who use innovation to solve complex problems and adapt to constructive critique.

MISSION: To become a **Full Service Community District** focused on high academic achievement while serving the **whole child, eliminating inequity**, and providing each child with **excellent teachers**, every day.

In order to be a Full Service Community School District we need Quality and Sustainable Community Schools in every neighborhood. Every school in our city should have¹:

- 1) Quality Learning Experiences for All Students
- 2) Safe, Supportive & Healthy Learning Environments
- 3) Learning Communities Focused on Continuous Improvement
- 4) Meaningful Student, Family & Community Engagement/Partnerships
- 5) Effective School Leadership & Resource Management
- 6) Support from a High Quality Central Office That Is In Service of Quality Schools

¹ Oakland Unified School District has developed [Quality School Standards](#) in 2012 through a multi-stakeholder engagement process. A key strategy of this plan is to update these standards and use our California State Dashboard as a guide for a school review process for both district and charter schools.

INTRODUCTION

AB 1840: OPPORTUNITY FOR FINANCIAL RELIEF

The Education Budget Trailer Bill, AB 1840, provides a unique provision of law to create a partnership between Oakland Unified School District (OUSD), Alameda County Superintendent of Schools and the Fiscal Crisis and Management Team to work together to move towards fiscal vitality for the District.

In accordance with the Trailer Bill, OUSD is creating a multi-year plan to complete specified activities to improve the District's fiscal solvency. These activities may include, but are not limited to, all of the following:

- Completion of comprehensive operational reviews that compare the needs of OUSD with similar school districts and provide data and recommendations regarding changes OUSD can make to achieve fiscal sustainability
- Adoption and implementation of necessary budgetary solutions, including the consolidation of school sites
- Completion and implementation of multiyear, fiscally solvent budgets and budget plans
- Qualification for positive certification
- Sale or lease of surplus property
- Growth and maintenance of budgetary reserves
- Approval of school district budgets by the Alameda County Superintendent of Schools

As specified in the Trailer Bill, the focus of this 2018-19 update is as follows:

- (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.

BACKGROUND

EXPERIENCING FISCAL DISTRESS

Core to the mission of a school district is the need to maximize the resources afforded to that system by the taxpayers to the benefit of the students that educators serve on a day-to-day basis. Fiscal challenges are an unwelcome distraction that draws attention away from the primary mission and purpose of the educational institution.

Unfortunately, this is the current circumstance for OUSD. Beginning in the winter of 2016, OUSD began exhibiting signs of fiscal distress that continued to progress through the end of the 2016-17 fiscal year and carried into the 2017-18 fiscal year. The District narrowly avoided state receivership by ensuring there was not a negative ending fund balance in the unrestricted general fund. Key drivers that were impacting the financial health of the District in the structural budget imbalance, revenues and expenditures are listed below²:

- Structural Budget Imbalance and Cash Flow: A lack of sufficient controls in place to manage for long-term balance and sustainability following the large infusion of revenues from the Local Control Funding Formula (LCFF);
- Revenues: Based on the use of roll-over budgeting, the District was unable to carefully review the multi-year impact of expenditure decisions and revenue changes; and
- Expenditures: Prior to the implementation of Escape, the financial and human resource management systems and procedures were inadequate to ensure there is a robust position control process in place.

Further complicating the financial position of the District are externally-driven expenditure pressures. Notable among these are the increase in the employer contributions to the retirement for STRS (certificated employees) and PERS (classified employees). Rates for these retirement programs are projected to triple from the beginning of the rate increases in 2013-14 through 2023-24. This places tremendous pressure on school district budgets statewide, effectively requiring reductions in spending in other areas to accommodate forthcoming expenditure increases in this area.

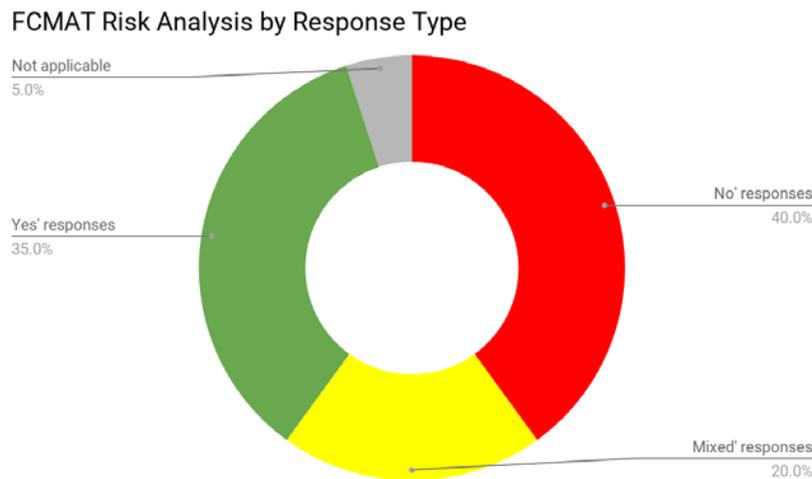
Specific to OUSD, is the continued growth in the special education population with many of these students exhibiting a high-level of need. This trend means that not only is the proportion of students with disabilities growing but those students with disabilities are coming to the District with more severe and costly issues to address than in previous years.

In both of these additional budget challenges, OUSD confronts the need to anticipate and plan for eventual budget increases that require tighter control over spending for the District in the forthcoming years. As a step towards improved fiscal health, the Board of Education requested that the Fiscal Crisis and Management Assistance Team (FCMAT) conduct a Fiscal Health Risk Analysis.

² Memo to the Oakland Unified School District Board of Education. *2016-17 Budget Crisis Post Mortem Report*. November 8, 2017. Page 3-8.

THE FISCAL HEALTH ASSESSMENT

The FCMAT report delivered to the OUSD Board of Education on August 15, 2017 contained an assessment of the 20 risk factors created by FCMAT to support California school districts “to evaluate key fiscal indicators that may help measure a school district’s risk of insolvency in the current and two subsequent fiscal years.”³ No single indicator signals fiscal distress, but the report goes on to say, “districts that answer ‘No’ to seven or more of the 20 key indicators may have cause for concern and could require some level of fiscal intervention. The more indicators identified [with a ‘No’ or ‘Mixed’], the greater the risk of insolvency or fiscal issues.”⁴ The report reveals the following overall ratings for OUSD:



OUSD received eight (8) ‘No’ responses, which exceeds FCMAT’s threshold for districts at risk of insolvency. Further, another four (4) responses were ‘Mixed’ bringing a total of 60% of the responses as either ‘No’ or ‘Mixed’.

THE FISCAL VITALITY PLAN

To address each of the risk factors identified as ‘No’ or ‘Mixed’ in FCMAT’s report, the District developed a Fiscal Vitality Plan. Below is the list of 23 recommendations for action contained in OUSD’s Fiscal Vitality Plan designed to help rectify OUSD’s current, poor fiscal health and build the foundation for fiscal vitality going forward. Each recommendation identifies the year or years in which the recommendation would be implemented along with which fund or funds in the OUSD budget would be impacted by the recommendation. As the level of fiscal distress was severe, some of the recommendations were for immediate action in 2017-18 only, but most of the recommendations identified ongoing changes.

³ Fiscal Crisis and Management Assistance Team (FCMAT). August 15, 2017. *Oakland Unified School District: Fiscal Health Risk Analysis*. Petaluma, CA. Page 3.

⁴Fiscal Crisis and Management Assistance Team (FCMAT). August 15, 2017. *Oakland Unified School District: Fiscal Health Risk Analysis*. Petaluma, CA. Page 3..

Table 1. List of Fiscal Vitality Plan Recommendations

| Rec # | Recommendation | Implement Year(s) | Fund(s) Impacted |
|-------|---|-------------------|-------------------------------|
| 1.1 | Restore the ending fund balance and maintain the state-mandated reserve for economic uncertainty | 2017-18, ongoing | General, Unrestricted |
| 1.2 | Institute adjustments to existing Central Office positions | 2017-18 | General, Unrestricted |
| 1.3 | Maximize the use of restricted revenue resources | 2017-18, ongoing | General, Restricted |
| 1.4 | Evaluate Central Office-based contracts and books/supplies for possible freeze and capture of savings | 2017-18 | General, Unrestricted |
| 1.5 | Pursue capture of donated days and/or furlough | 2017-18 | General, Unrestricted |
| 1.6 | Adjust school per pupil allocations to capture savings | 2017-18 | General, Unrestricted |
| 1.7 | Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood | 2017-18, ongoing | General, Nutrition, Child Dev |
| 1.8 | Update and implement budget forecast and projection practices | 2017-18, ongoing | All |
| 1.9 | Review and update cash flow monitoring practices | 2017-18, ongoing | All |
| 1.10 | Institute immediate protocols to limit and review spending among Central Office and school sites | 2017-18 | General |
| 2.1 | Plan for and adopt a balanced budget that avoids future deficit spending | 2018-19, ongoing | All |
| 2.2 | Establish and conduct zero-based budgeting sessions with all Central Office practices | 2017-18 | All |
| 2.3 | Research, engage and implement a Central Office reorganization | 2018-19 | All |
| 2.4 | Institute and conduct monthly central office and school site budget monitoring practices | 2017-18, ongoing | All |
| 2.5 | Review, update and implement effective position control practices | 2017-18, ongoing | All |
| 2.6 | Develop a process for pre-approval of extra time employee payments | 2017-18, ongoing | All |
| 2.7 | Review and implement revised contract approval, processing and management procedures | 2017-18, ongoing | All |

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|-----|--|------------------|---------------------|
| 2.8 | Complete transition to Escape technology system to manage finance and human resource (HR) information | 2017-18, 2018-19 | All |
| 2.9 | Review and execute on shifts in expenses that maximize the use of restricted funds | 2017-18 | General, Restricted |
| 3.1 | Review and engage school district and school leaders to re-establish appropriate budget roles and responsibility | 2017-18, 2018-19 | All |
| 3.2 | Establish systems for the management and oversight of bargaining agreements | 2017-18, ongoing | All |
| 3.3 | Consider and act on recommendations from the Blueprint for Quality Schools review | 2018-19, 2019-20 | General |

The recommendations in the Fiscal Vitality Plan were organized by phases in time. The chart on the following page provides a crosswalk between each of the identified risk factors and recommendations included in the Fiscal Vitality Plan. Note that three additional factors have been added that were marked as ‘Yes’, but remain vitally important to addressing the District’s challenges. These include: (a) budget development and adoption, (b) multi-year projections, and (c) internal controls and audit reports.

Table 2. Crosswalk of FCMAT Risk Factors and Fiscal Vitality Plan-Responsive Recommendations

| Risk Factor | Rating | Summary FCMAT Recommendations | FVP-responsive Recommendations |
|----------------------------------|--------|---|-----------------------------------|
| Deficit Spending | No | Adopt a plan to eliminate deficit spending | 2.1, 2.2, 2.3, 2.4 |
| Fund Balance | No | Monitor contributions and transfers to restricted programs | 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7 |
| Reserve for Economic Uncertainty | No | Develop a plan to restore and maintain reserve | 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7 |
| Enrollment and Attendance | Mixed | Monitoring plan; new housing; industry, charter schools, birth rates; FTE changes | 2.1 |
| Cash Monitoring | Mixed | Plan for short-term cash flow needs; inter-fund transfers | 1.9 |
| Bargaining Agreement | No | Bargaining beyond COLA must be supported by available fund balance | 3.2 |
| General Fund | Mixed | Track one-time revenues with one-time expenditures; plan for realignment or elimination of positions funded | 1.3, 2.9 |
| Encroachment | No | Special ed, nutrition and early childhood cost containment; evaluate transportation and bell schedules | 1.7 |

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| | | | |
|--------------------------------------|-------|--|-------------------------|
| Position Control and Human Resources | No | Tracking, creating, and deleting positions; reconciling HR, budget and payroll systems | 1.2, 2.5, 2.6, 2.8 |
| Budget Development and Adoption | Yes | Budget development timeline and procedures | 2.1, 2.2, 2.3 |
| Multi-year Projections | Yes | Zero-based budgeting | 2.2 |
| Budget Monitoring and Updates | No | Budget exception framework | 2.4 |
| Leadership Stability | No | Culture and practices that promote and support systematic reform | 3.1, 3.2, 3.3 |
| Internal Controls and Audit Reports | Yes | Ensure continuity and consistency in the application of internal controls | 2.4, 2.5, 2.6, 2.7, 2.8 |
| General Ledger | Mixed | Strengthen communication among financial services departments | 1.7, 1.8, 1.9, 1.10 |

EXECUTIVE SUMMARY

OUSD Fiscal Overview

Budget Update

The following executive summary provides an overview of activities and financial decisions by the District to create a multi-year plan to improve the District's fiscal solvency. The executive summary highlights District thinking and decisions to update and develop short and long-term financial plans based on what we believe are the most reasonable and accurate assumptions. We believe all of the activities as described in this executive summary and the entire report are moving the District toward fiscal sustainability.

In June 2018, when the District adopted its 2018-19 multi-year budget, the District's budget for FY 2020-21 was projecting a \$59 million deficit with an estimated ending fund balance reserve of -6.75%. By FY 2020-21, the District would have been unable to meet its State-required 2% minimum Reserve for Economic Uncertainty unless substantive actions were taken. In order to address the budget shortfall and provide a positive budget forecast, the Board approved a resolution to reduce expenditures beginning in FY 2019-20 by \$30 million. The reductions were planned as primarily reductions in force (RIF) which totaled almost 200 FTEs in order to provide for a positive budget by FY 2020-21.

As a result of the deficit reduction resolution approved by the Board, the Governing Board established a Fiscal Vitality Committee with the goal of providing a framework for reductions to the entire Board. The Committee began meeting in September and continued through December 2018. In November 2018, the Board approved a reduction resolution which established a reduction target of \$30 million in ongoing reductions beginning in FY 2019-20, and the establishment of a minimum 3% reserve beginning in FY 2019-20 and continuing every year thereafter. The Board's approved resolution stated that the following framework for reductions must be adhered to as follows:

1. Implement Board of Education Budget Policy 3150
2. Redesign the District
3. Competitive Employee Compensation
4. Commit to Shared Decision Making and Multi-Stakeholder Teams

With the approval of the budget reduction framework resolution, the administration proceeded to develop a reduction plan within this framework. Since the Board's adoption of the budget reductions framework, the District's multi-year budget improved. The most notable changes since budget adoption involves the unaudited actuals which provided an increase and adjustment in the unrestricted beginning fund balance and \$17.4M for the Reserve for Economic Uncertainty. The District's Unrestricted Reserve % improved to 3.27%, however, due to other adjustments in the audited financials for average daily attendance (ADA) (\$5.38M) and

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prior-year transportation contract adjustment (\$1.23M), the reserve % was reduced to 2.56% for FY 2018-19 as of our budget revision #3 which was presented in February, 2019. The other major change occurred at First Interim Reporting where the District's budget showed marked improvement. Further details about those changes, adjustments, and assumptions are presented in the First Interim Update within this report.

Budget Reductions and Negotiations Update

Based on an improved budget outlook and increased LCFF revenue from the Governor's 2019 proposed budget, the budget reduction target was adjusted to \$21.75 Million. The administration had determined that this level of reduction would allow for reasonable salary compensation increases and allow the district to maintain a minimum 3% reserve based on the board's proposed resolution.

The chart below highlights the reductions currently being proposed for approval by the District's Governing Board:

| Category | Reduction |
|------------------------------------|---|
| Central Administration | \$11.93M (20% reduction) Reduce or reallocate funding 90.23 FTE |
| Central Services to School Sites | \$3.75M (4% reduction) Reduce or reallocate funding 57.8 FTE |
| School Sites (Discretionary Funds) | \$3M (1.3% reduction) Reductions were based on a per pupil ratio |
| Contracts & Max. Restricted Funds | \$1.47M \$.4M in contracts, \$1.07M in maximizing restricted funds |
| Operational Savings | \$1.6M |
| Total | \$21.75M |

The Chart above illustrates the proposed reductions to meet a minimum 3% reserve beginning in Fiscal Year 2019-20 and thereafter. The reductions come primarily from a reduction in site discretionary spending and a

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reduction in 143 FTEs primarily from the central office. These reductions make-up 85% of the proposed reductions. The remaining 15% of reductions are based on a reduction in contracted services, reallocation of restricted dollars, and operational savings. More information on these reductions is available in the Appendix - Proposed Budget Reductions.

The chart below details proposed operational savings:

| Categories | Projected Operational Savings |
|--|-------------------------------|
| Facilities Rental Redesign | \$429,000 |
| Districtwide Saturday School - ADA Recovery Program (minimum 24 sites) | \$945,000 |
| School Consolidations and Closures | \$81,000 |
| Reduced Energy & Utilities Costs | \$150,000 |
| Total Proposed Operational Savings | \$1.605 Million |

Details for all proposed operational savings are provided in the Appendix - Proposed Budget Reductions.

Review of Budgetary Assumptions

In preparation for First Interim, the District's new fiscal leadership team which includes the Chief Financial Officer, Senior Executive Director of Budget, and Budget Director initiated a process to review and update critical budget data and assumptions. The fiscal team did not have the option to compare detailed fiscal assumptions from the Adopted Budget because the information which was developed by the former fiscal team was lacking in the detailed assumptions which would have allowed for an opportunity to do more of a comparative analysis. In the absence of detailed assumptions from the 2018-19 adopted budget, the team prepared for First Interim with a ground-up approach.

Since salary and benefits costs make-up 70% of the District's expenses, the team performed detailed work in this area to balance positions with budgets and to eliminate duplicate positions, and to ensure vacancies were actual vacancies. This work, which is part of the position control analysis, was helped by the addition of the new Escape financial management system. The new financial system, which went live on July 1, 2018, assisted

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the team in being able to drill-down and reconcile positions and benefits data. As a result of this work, the team was able to reconcile hundreds of positions. Work is still continuing in this area as the team begins preparation for Second Interim.

The next area where the team performed a detailed analysis in collaboration with the District's Research, Assessment & Data Team was in the area of enrollment projections and ADA. The team, with the assistance of the Chief Business Officer, determined that the District's process for determining enrollment projections was not a standardized best practice. The District's practice did not take the official CALPADS numbers into consideration which the Local Control Funding Formula (LCFF) is based upon. The team initiated an immediate change of practice and the process was revised to utilize certified CALPADS enrollment numbers (See Projections Process Report – Appendix). One of the major discoveries from the enrollment study showed that the District's enrollment has stabilized and is not in decline.

Another factor that impacted the enrollment projections - which is unique to OUSD and a handful of other districts throughout the State - is the impact of late newcomers or immigrant students. Oakland receives between 400 to 1,000 immigrant students in a given year and being able to adequately account for this population has been a challenge.

A final major area of budget clean-up and focus was in how the District utilized holding accounts such as 998 and 999. The team carefully reviewed this area of expense and determined that some of the dollars held in these accounts which totaled into the millions had already served its intended purpose and in many cases the allocations were just being rolled over.

First Interim Update

At First Interim, the District's budget for FY 2018-19 reflected a dramatic change from the adopted budget (See – 2018-19 First Interim – Appendix). The fiscal team had performed a high level of work in updating the assumptions, however, the level of change reflected in the numbers has been hard to fathom given the level of change and the historical fluctuations which have occurred in projecting budgets for OUSD in the past. The District did not present a First Interim reflecting this level of dramatic change because it was determined that the assumptions, revenues, and expenses should undergo a deeper scrub and review.

At the same time staff was undergoing a deeper review of the assumptions, the District submitted its First Interim which made an assumption for investments in salary compensation and assumed reductions of \$15 million beginning in FY 2019-20, and an additional \$28 million beginning in FY 2020-21. This was done in an effort to provide more time and consideration of the budget assumption variables which were provided. The District had recommended a positive certification based on the work that had been completed on the budget, however, the Alameda County Office of Education changed the certification to Qualified based on some of the underlying assumptions and inconsistency in prior-year forecasts.

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The following chart summarizes the change in the budget since June 2018 Adoption:

| Budget Changes Since June Adoption | | | | |
|------------------------------------|---------------|---------------|---------------|--|
| Budget Update | 2018-19 | 2019-20 | 2020-2021 | Target Amount Needed for 2% or above Reserve by 20/21 |
| Adopted Budget | 2.61% Reserve | 4.59% Reserve | 3.18% Reserve | With \$30M in reductions beginning FY 19-20 |
| 1st Interim | 2.25% Reserve | 2.19% Reserve | .70% Reserve | With NO reductions & NO increase in investments |
| Approved 1st Interim | 2.25% | 2.48% | 2.35% | \$15 Million in 19-20 \$28 Million in 20-21 (includes investments) |

Budget Revisions

As part of the District's Commitment to Fiscal Solvency, a series of budget revision reports are developed during the fiscal year to highlight key fiscal changes since budget adoption and interim reports were presented. The District has found this to be a great practice to improve budgetary accuracy and reporting during the year. It is important to note that the preparation of budget revision is not a requirement of K-12

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school districts in California, however, OUSD sees this as a very important tool to improving accuracy, transparency, and credibility in financial reporting. (see – Budget Revision #3 – Appendix)

Multi-Year Fiscal Planning (Long-Term)

OUSD and the District’s fiscal team have taken great care to update and prepare the multi-year financial projections. The new fiscal team did not prepare the adopted budget so it has been very important for the fiscal team and OUSD leadership to understand what is being considered in the long-term projections. The fiscal team has prioritized the review of the following key assumptions: estimates for COLA, current bargained agreements, health and benefit increases, step and column adjustments, CalSTRS and CalPERS contribution rates increases, enrollment fluctuations, and other variables. In addition staff anticipated costs related to potential salary increases, as well as any other increased expenditures and contributions for special education, which would have an impact on the ending fund balance.

Based on much of the review work that has already occurred, the Multi-Year Financial Projections have been updated and are reflective of the changing budget narrative staff has developed from First Interim Reporting. As was stated earlier, the District is cautious of the changing dynamics of the multi-year budget due to the fluctuation in prior year forecasting and the unpredictability of budget unknowns.

Multi-Year Financial (with Reductions of \$15M/FY 19-20 and \$28M/FY 20-21 as/of First Interim) Projection Summary For the General Fund:

| MYP General Fund - Combined | 2017/18 Unaudited Actuals | 2018/19 Adopted 6/27/2018 | 2018/19 Revision 1 10/15/2018 | 2018/19 1st Interim 10/31/2018 | 2019-2020 Revised MYP | 2020-2021 Revised MYP |
|------------------------------------|---------------------------------|---------------------------------|-------------------------------------|--------------------------------------|--------------------------|--------------------------|
| Revenue | \$ 562,832,639 | \$ 566,526,416 | \$ 582,307,037 | \$ 585,953,033 | \$ 579,012,566 | \$ 590,613,533 |
| Expenditures | \$ 533,508,930 | \$ 544,065,384 | \$ 605,030,051 | \$ 609,225,332 | \$ 583,655,656 | \$ 591,283,217 |
| Net Fund Flow | \$ 29,323,709 | \$ 22,461,032 | \$ (22,723,014) | \$ (23,272,299) | \$ (4,643,089) | \$ (669,684) |
| Beg Fund Balance | \$ 27,264,146 | \$ 25,708,250 | \$ 56,587,855 | \$ 56,587,855 | \$ 33,315,556 | \$ 28,672,467 |
| Ending Fund Balance | \$ 56,587,855 | \$ 48,169,282 | \$ 33,864,841 | \$ 33,315,556 | \$ 28,672,467 | \$ 28,002,783 |
| Component of EFB | | | | | | |
| Non-Spendable | \$ 540,122 | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ 150,000 |
| Restricted | \$ 38,612,895 | \$ 33,454,767 | \$ 12,456,005 | \$ 13,019,542 | \$ 13,019,542 | \$ 13,019,542 |
| Committed | \$ - | \$ 350,000 | \$ - | \$ - | \$ - | \$ - |
| Assigned-Prior Year ADA Adjustment | \$ - | \$ - | \$ 6,023,564 | \$ 5,379,785 | \$ - | \$ - |
| Assigned- Technology Refresh | \$ - | \$ - | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Reserve for Economic Uncertainty | \$ 17,434,838 | \$ 14,214,515 | \$ 14,235,271 | \$ 13,766,229 | \$ 14,502,925 | \$ 13,833,241 |
| Unassigned | \$ - | \$ 0 | \$ - | | | |
| REU Rate | 3.27% | 2.61% | 2.35% | 2.26% | 2.48% | 2.34% |

Deficit Spending/Ending Fund Balance Shortfall

Historically, the District has maintained very little excess reserves which are oftentimes critical in mitigating unforeseen expenses and projected budget shortfalls. At the end of FY 2016-17, the District discovered it had

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a significant fiscal shortfall and would be unable to meet its minimum 2% reserve. This necessitated very painful mid-year reductions totaling an estimated \$10 million dollars. At the suggestion of OUSD staff, the Board now has an approved budget resolution which requires that all budget reduction targets include the consideration of the District maintaining a minimum reserve of 2.5% in FY 2018-19 and increasing to 3% beginning in Fiscal Year 2019-20 and beyond. (See Budget Reduction Resolution – Appendix)

2017 Fiscal Health Risk Analysis Update

In FY 2016-17, the District's Governing Board contracted with FCMAT to review the District's fiscal health and associated risk factors. The analysis had revealed significant weaknesses within the school District's financial procedures, processes, and controls. FCMAT recommended as a result of their work that the District should take immediate action to avoid further erosion of the District's reserve levels and possible fiscal emergency. FCMAT issued a total of 23 Fiscal Vitality Plan Recommendations as part of its final report. The actual report findings are summarized in the background section of this report.

The District has taken the Fiscal Vitality report recommendations seriously and made efforts to address the items within the report. An update of our efforts and the status of each recommendation is contained within this document. The District is pleased to announce that we believe that we have met and implemented 20 of the plan recommendations. The remaining 3 recommendations should be met on or before June, 2019:

- (2.1) Plan for and Adopt a Balanced Budget that Avoids Future Deficit Spending;
- (2.3) Central Office Reorganization; and,
- (3.3) Implementation of Blueprint for Quality Schools.

Further details and next steps on these items are contained within this report.

Facility Planning

As part of the deliverables of AB 1840, we have reviewed and updated our district facilities construction plans to ensure that costs are reasonable, accurate, and aligned with long-term financial plans for solvency. We completed and provided a detailed update to the OUSD Governing Board on August 22, 2018. (See OUSD Capital Program Proposed Spending Plan Changes of Measure B & J – Appendix)

In that report, it was determined that serious structural deficits existed in the Measure B & J bond programs. The District stated in the report that there were more projects and commitments to spending identified which the District could not afford. In order to complete all the identified projects at that time the District would have required an additional \$160 million in current year funding to complete all of the projects within the timeframes committed.

As a result of the detailed analysis, staff prioritized which projects should continue to move forward and which ones should be delayed until new funding becomes available. It was determined that only the most critical projects would move forward. Staff determined that in order to move forward with the most critical projects,

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there was a shortfall estimated at \$43 million. Staff were able to make up this difference with developer fee revenues, school facilities fund, and from interest. More information and summary update is available within this document.

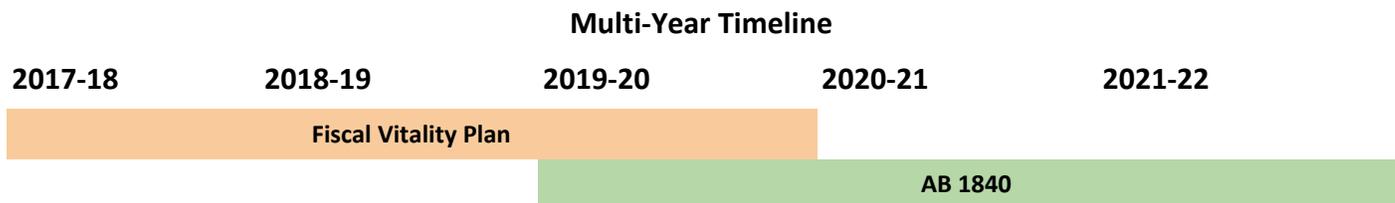
Final Comments

OUSD believes that it has taken all efforts to meet the requirements and considerations of AB1840 as evidenced by the updates and documentation provided within this report. We believe the partnership between OUSD, ACOE, and FCMAT to move the District toward fiscal vitality has been both impactful and insightful. We believe all of the hard work contained within this document is a reflection of the collaboration and partnership our District has had with our partners. We believe we have been good stewards of this opportunity and we believe we are moving in the right direction to demonstrate our commitment to fiscal solvency and sustainability.

To reach our vision for students, we must build a foundation of financial and operational stability. We recognize difficult choices are necessary to attain sustainability and are pleased with the opportunity for additional support from the state embodied in AB 1840.

UPDATED FISCAL VITALITY PLAN

In consultation with FCMAT and ACOE, OUSD has based its plans responsive to AB 1840 in our existing Fiscal Vitality Plan. As mentioned above, the Fiscal Vitality Plan was started with a timeline of 2017 through 2020. Some recommendations have been completed, but most were ongoing items relevant to AB 1840 through 2022 as illustrated in the timeline below.



On the following pages is a status update reflecting work to date as well as next steps for implementation for each of the recommendations in the Fiscal Vitality Plan.

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| Recommendation 1.3 Summary | Overall Status | Last Updated |
|---|--------------------|--------------|
| Maximize the use of restricted revenue resources | Complete | 2/2019 |
| Status Update (2/2019) | | |
| <p>The budget staff has been monitoring the categorical budgets for variances. Financial Analysts have been directed to work with the various departments to ensure program managers are aligning restricted resources with program plans. Staff has attended various workshops to assist them with compliance to help them identify what unrestricted expenses can be moved to categorical resources and ensure that compliance with restricted programs is met.</p> | | |
| | | |
| Next Steps | Responsible | Timeline |
| Second Interim Review | Budget; State&Fed | March 2019 |
| Budget Monitoring | Sites;Depts;Budget | On-going |
| Budget Revisions | Budget | On-going |
| Revise SSC and SPSA | State&Fed | On-going |
| Review Carryover Balances | Budget; State&Fed | On-going |
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| Recommendation 1.5 Summary | Overall Status | Last Updated |
|--|----------------|--------------|
| Pursue capture of donated days and/or furlough | Complete | 3-14-2018 |
| | | |
| Status Update (2/2019) | | |
| As part of mid-year cuts in 2017-18, senior district staff and other were encouraged to donate a portion of salary to address budget shortfalls and limit the need for other staff layoffs. Roughly \$250K was donated from this effort. | | |
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| Next Steps | Responsible | Timeline |
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| Recommendation 1.6 Summary | Overall Status | Last Updated |
|--|----------------|---------------|
| Adjust school per pupil allocations to capture savings | Complete | 2-1-2019 |
| | | |
| Status Update (2/2019) | | |
| <p>As part of mid-year reductions, school unrestricted budget amounts were reduced by over \$3M. The reductions were made on a per pupil basis with different amounts applied for different student grade spans. The amount per pupil for each grade span was consistent with the method that these unrestricted funds were initially allocated to schools at budget adoption.</p> | | |
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| Next Steps | Responsible | Timeline |
| Board voting on budget reduction plan which includes \$3M in ongoing discretionary reduction to school sites to capture savings | Board | February 2019 |
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| Recommendation 1.7 Summary | Overall Status | Last Updated |
|---|------------------|--------------|
| Institute closer monitoring of contributions to other programs, e.g., special education, nutrition, and early childhood | Complete | 2/2019 |
| | | |
| Status Update (2/2019) | | |
| <p>The district is declining in enrollment but we are increasing in the number of students identified as special education. All budgets are being monitored by program and budget staff to ensure proper projections of revenues and expenses. Award letters are being reviewed and budgets are being updated frequently. It is recommended that an operations study be completed to review programs with significant general fund contributions.</p> | | |
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| Next Steps | Responsible | Timeline |
| Second Interim | Budget | March 2019 |
| Budget Monitoring | Program & Budget | On-going |
| Review Award Letters | Program & Budget | On-going |
| Ensuring Compliance | Program & Budget | On-going |
| Review Policies and Procedures | Program & Budget | On-going |
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| Recommendation 2.3 Summary | Overall Status | Last Updated |
|--|------------------------------|-----------------|
| Research, engage and implement a Central Office reorganization | In Progress | 2/2019 |
| Status Update (2/2019) | | |
| <p>Beginning in FY 2017-18, OUSD began the process of consolidating, eliminating, and merging offices and departments. A review of OUSD’s current organizational chart which is shown in the appendix shows an efficient and effective leadership structure. The district has recently completed a more comprehensive review of positions and staffing as part of the budget reduction process. In comparison to districts of comparable size, OUSD determined that there is a greater than average number of administrators and managers in the central office. This was determined to be an area of focus and opportunity in the district’s recommended FTE reductions for FY 2019-20. The district is reducing an estimated 130 FTEs from Central Office of which at least 50% are either classified or certificated administrators. The actual reduction resolution is in the process of Board adoption.</p> | | |
| Next Steps | | |
| Next Steps | Responsible | Timeline |
| FTE Budget Reductions Approved by the Board | Board | February 2019 |
| Layoff Resolution is Approved by the Board to accommodate March 15 Notifications | Board | February 2019 |
| Central Office FTE reduction impacts are known and are provided to the board for review and evaluation | Superintendent/CAO/HR/CBO | February 2019 |
| Service and delivery level mitigation plans are developed to accommodate reduced number of central site staff | All Chiefs and Deputy Chiefs | March 2019 |
| Service and delivery level mitigation plans are reviewed and approved | Superintendent/HR | April 2019 |
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| Recommendation 2.4 Summary | Overall Status | Last Updated |
|---|----------------|--------------|
| Institute and conduct monthly central office and school site budget monitoring practices | Complete | 2/2019 |
| | | |
| Status Update (2/2019) | | |
| Budget staff has been providing budget monitoring and training to sites and departments on a regular basis. With the implementation of the Escape Financial system, end-users have access to user friendly budget summary reports that assist with budget monitoring. | | |
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| Next Steps | Responsible | Timeline |
| Develop online resources for financial report resources | Budget | On-going |
| Budget monitoring training | Budget | On-going |
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| Recommendation 2.7 Summary | Overall Status | Last Updated | | | | | | | | | | | | |
|---|-------------------|--------------|------------|-------------|----------|--|-------------------|-----------|--|--|--|--|--|--|
| Review and implement revised contract approval, processing and management procedures | Complete | 2/2019 | | | | | | | | | | | | |
| Status Update (2/2019) | | | | | | | | | | | | | | |
| <p>We have implemented the Escape system for Finance, Payroll and Human Resources. The Escape system went fully live on July 1, 2018 and is hosted by the Alameda County Office of Education (ACOE). The new system greatly enhances financial transparency and adds key internal controls. The system is configured to prevent requisitions from being entered without sufficient funds, and system workflows have been configured to add key approval steps. Financial analysts now review requisitions to ensure that correct account codes are used and to proactively identify any budget concerns, and administrators of restricted funding categories (for example, general obligation bond funds used to support Technology needs) are included in the approval workflow. These additional steps add checks and balances to ensure that District funds are used appropriately before a purchase order (PO) is issued. For professional services contracts, the Procurement team continues to verify the existence of a Board-approved (or ratified) contract prior to issuing a PO. POs issued to our vendors through the new Escape system clearly state that "No payments will be made to any vendor without a valid, OUSD Board Approved or Ratified contract as applicable. (See, e.g. OUSD Board Policy 3312)". In addition, Board memos require identification of funding source(s) on every contract submitted for ratification or approval. The OUSD Board Office, which assembles Board agendas, requires and verifies the existence of an Escape requisition before placing a contract on the Board agenda, to ensure that funds are encumbered before a contract is fully executed. The online contracts system launched several years ago to process vendor background checks and standard professional services contracts. Using an electronic process for contract entry and approval has proven far superior to paper and has increased transparency and timeliness. As part of our continued work in this area, the contracts website on the OUSD Intranet was completely overhauled in early 2019 to better organize templates and training resources, and to explain contract processes and procedures in a clear and compelling way. The updated website includes a flowchart of the approval process, an organizational chart indicating District staff with signing authority, and a standalone area outlining Board deadlines and procedures.</p> | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d9ead3;">Next Steps</th> <th style="background-color: #d9ead3;">Responsible</th> <th style="background-color: #d9ead3;">Timeline</th> </tr> </thead> <tbody> <tr> <td>Based upon the ongoing success of the online contracts system, the Technology and Legal teams are currently working to implement a similar online system for contract amendments, with longer-term plans to implement an online system for custom contracts. Continuing to replace outdated and cumbersome paper processes with digital systems will reduce delays and thereby discourage exceptions to District procedures.</td> <td style="text-align: center;">CFO/CTO/CBO/Legal</td> <td style="text-align: center;">June 2019</td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> | | | Next Steps | Responsible | Timeline | Based upon the ongoing success of the online contracts system, the Technology and Legal teams are currently working to implement a similar online system for contract amendments, with longer-term plans to implement an online system for custom contracts. Continuing to replace outdated and cumbersome paper processes with digital systems will reduce delays and thereby discourage exceptions to District procedures. | CFO/CTO/CBO/Legal | June 2019 | | | | | | |
| Next Steps | Responsible | Timeline | | | | | | | | | | | | |
| Based upon the ongoing success of the online contracts system, the Technology and Legal teams are currently working to implement a similar online system for contract amendments, with longer-term plans to implement an online system for custom contracts. Continuing to replace outdated and cumbersome paper processes with digital systems will reduce delays and thereby discourage exceptions to District procedures. | CFO/CTO/CBO/Legal | June 2019 | | | | | | | | | | | | |
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| Recommendation 2.9 Summary | Overall Status | Last Updated |
|--|----------------|---------------|
| Review and execute on shifts in expenses that maximize the use of restricted funds | Complete | 2/2019 |
| | | |
| Status Update (2/2019) | | |
| <p>In 2017-18 at 1st interim the district identified approximately \$2.7 million in shifts that leverage federal funds with a target to identify approximately \$1.6 million in additional adjustments. After detailed review of the presumed available restricted resources, some of the resources were not available and only a small portion of unrestricted expenses could be allocated to restricted resources consistent with the restrictions on those resources.</p> | | |
| | | |
| Next Steps | Responsible | Timeline |
| On-going budget review and monitoring to examine opportunities to maximize the the use of restricted funds | Budget Dept. | on-going |
| Budget Reduction plan which is under review by the Governing Board considers an estimated shift between \$4 - \$4.5 million from GF supplemental funding to GF unrestricted and an additional \$1 million shift from restricted programs | Supt./Board | February 2019 |
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FACILITIES SPENDING PLAN

AB 1840 requires OUSD to review and update district facilities construction plans to ensure that costs are reasonable, accurate, and align with long-term financial plans for fiscal solvency. Oakland is fortunate to have a generous community that has provided a series of bond funds that help ensure facilities construction plans do not impact overall fiscal solvency.

In June 2012, Oakland voters passed Measure J, a \$475 million School Facilities Improvement Bond to fund several projects throughout the city. The number of projects and scope were expanded in 2015. The updated project list and spending plan incorporates recent cost reviews and plan modifications approved by our Board of Education in August 2018 and total over \$600 million in school improvements.

Currently all facilities projects identified in the updated Spending Plan are on track to be completed within the approved budget. The projects are funded from several different funding sources including the Building Fund 21, State School Fund 35, and Developer Mitigation Fees 25. None of the projects rely on funding from the General Fund. However, portions of the projected revenue are dependent on revenue projections of Developer Mitigation Fees over the next 3 fiscal years.

The Board-approved [Spending Plan](#) is summarized in Table 3 below and included in full in the Appendix along with a [Multi-Year Cash Flow projection](#).

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Table 3. Comparison of 2017 Facilities Projects Spending Plan and 2018 Updated Facilities Projects Spending Plan

| 2017 BOARD APPROVED SPENDING PLAN (6-2017) | | | | | | | | |
|---|-----------------|------------------|--------------------------|----------------|----------------|------------------------|------------------------|-----------------|
| Category | Projects | Measure J | Measure B (\$65M) | Fund 35 | Fund 25 | Measure B (Int) | Measure J (Int) | Total |
| Modernization & New Construction | 15 | \$ 341.5 | \$ 40.8 | \$ - | \$ - | \$ - | \$ - | \$ 382.3 |
| Security Projects | 2 | \$ 2.5 | \$ 4.0 | \$ - | \$ - | \$ - | \$ - | \$ 6.5 |
| Energy and Technology Projects | 4 | \$ 20.3 | \$ 3.5 | \$ - | \$ - | \$ - | \$ - | \$ 23.8 |
| Other Capital Improvements | 17 | \$ 47.4 | \$ 3.5 | \$ - | \$ - | \$ 1.0 | \$ - | \$ 51.9 |
| Field Projects | 8 | \$ 19.1 | \$ 5.8 | \$ - | \$ - | \$ - | \$ - | \$ 24.9 |
| Other | 6 | \$ 44.2 | \$ 7.4 | \$ - | \$ - | \$ 8.5 | \$ - | \$ 60.1 |
| Totals | | \$ 475.0 | \$ 65.0 | \$ - | \$ - | \$ 9.5 | \$ - | \$ 549.5 |
| | | | | | | | | |
| 2018 UPDATED SPENDING PLAN (8-2018) | | | | | | | | |
| Category | Projects | Measure J | Measure B (\$65M) | Fund 35 | Fund 25 | Measure B (Int) | Measure J (Int) | Total |
| Modernization & New Construction | 15 | \$ 339.8 | \$ 46.8 | \$ 2.9 | \$ 38.1 | \$ - | \$ - | \$ 427.6 |
| Security Projects | 2 | \$ 2.5 | \$ 2.0 | \$ - | \$ - | \$ - | \$ - | \$ 4.5 |
| Energy and Technology Projects | 4 | \$ 20.3 | \$ 3.5 | \$ - | \$ - | \$ - | \$ - | \$ 23.8 |
| Other Capital Improvements | 17 | \$ 24.7 | \$ 3.0 | \$ 2.7 | \$ - | \$ - | \$ - | \$ 30.4 |
| Field Projects | 8 | \$ 17.6 | \$ 5.8 | \$ 2.6 | \$ - | \$ - | \$ - | \$ 25.9 |
| Other | 6 | \$ 70.0 | \$ 3.9 | \$ 2.2 | \$ - | \$ 9.5 | \$ 2.5 | \$ 88.1 |
| Totals | | \$ 475.0 | \$ 65.0 | \$ 10.3 | \$ 38.1 | \$ 9.5 | \$ 2.5 | \$ 600.4 |
| | | | | | | | | |
| | | | | | | | | |
| Difference in Spending | | \$ - | \$ - | \$ 10.3 | \$ 38.1 | \$ - | \$ 2.5 | \$ 50.9 |

APPENDICES

Financial Documents

[FCMAT Report](#)

[OUSD Fiscal Vitality Plan](#)

[Fiscal Vitality Resolution - Nov 2018](#)

[OUSD 2018-19 First Interim Financial Report](#)

[OUSD 2018-19 Budget Revision #3](#)

[OUSD Budget Reduction Plan](#)

[OUSD Enrollment Projections Process](#)

Facilities Documents

[Measure ABJ Spending Plan](#)

[Facilities Capital Spending Detail](#)

[Facilities Multi-Year Cash Flow Projection](#)

Citywide Plan

[BP 6006 Quality School Development: Community of Schools](#)

[Citywide Plan Report](#)

[OUSD Government Theory of Action](#)

[OUSD School Quality Standards](#)

Websites

www.ousd.org/ab1840

www.ousd.org/fiscalvitality

www.ousd.org/citywideplan

www.ousd.org/blueprintforquality