

OAKLAND UNIFIED SCHOOL DISTRICT: HARD CHOICES NEEDED TO PREVENT INSOLVENCY

EXECUTIVE SUMMARY

At the beginning of the 2017-2018 school year, the Oakland Unified School District (OUSD) faced a \$15 million deficit, criticism from outside experts that “the district had lost control of its spending,” and repeated calls to consolidate schools in order to save money and improve performance. Nevertheless, two new schools were opened, one serving 53 students, the other 125 students. While the new schools may serve laudable purposes, the school board abandoned the district’s established budgeting process by approving them without proper funding and without a plan to ensure they would be sustainable. The decision put further strain on an already overstretched budget, which, among other things, meant taking money from other underfunded schools and inching the district closer to insolvency.

This term, the Grand Jury chose to examine some of the underlying issues responsible for the district’s continuing financial quagmire. After a nine-month investigation, the Grand Jury determined that these school openings are emblematic of system-wide failures including:

- Hiring and program spending that is made outside of budgetary control.
- Operating nearly double the number of schools than can be justified by the enrollment numbers.
- No accountability, lack of trust, and high teacher and administration turnover.

We concluded that these management and governing problems are chief reasons why OUSD has been on average between 20 and 30 million dollars in debt for the last 15 years, and may help to explain why one in five Oakland public schools scores in the bottom 5% statewide in math and English language arts proficiency.

The new superintendent, the fifth in the last nine years, has promised publicly to address the district’s problems. She sought help from the state’s Fiscal Crisis and Management Assistance Team; she has made changes in the system’s budget office; and she is developing a Blueprint for

Quality Schools program that is expected to set forth an aggressive plan to fix the district's fiscal and educational woes as well as to ensure accountability.

In the Grand Jury's investigation it became clear that schools need to be consolidated if the district is to survive.

These actions are all steps in the right direction, but, unfortunately, similar spending freezes and budget fixes proposed in the past have been stymied by stiff opposition. Many of the problems identified by the state team have not been addressed due to lack of political will. As a result, district reserves have now dropped below the state's minimum requirements.

The elected board of education, district staff and the community must realize that failure to support a unified effort at comprehensive reform is marching the district towards state takeover. This certainly was not the answer to this district's problems in 2002 when the state took over the first time: it meant more debt for decades and loss of local control.

While students in OUSD seem to pay a heavy price for this poor governance, experts tell the Grand Jury that those responsible, the board and the district's decision-makers, seem to pay little or no price for their actions or inactions.

This report will address a number of structural hurdles the district will have to overcome to address these financial and educational challenges. The Grand Jury hopes this report will support those who are serious about reform.

BACKGROUND

Fiscal Performance

OUSD educates 36,900 students in the 86 non-charter schools that it operates. At the start of this last school year, the district employed 2,317 teachers and 2,564 additional staff, 719 of whom worked in the central office.

For more than a decade, numerous experts and outside reviewers, including the grand juries in 2013-2014 and 2015-2016, have highlighted the fiscal deficits plaguing OUSD. In fiscal year 2017-2018, like so many previous years, OUSD operated in the red. Its initial budget was \$762.8 million, \$15.1 million more than it had to cover expenses. At a board meeting last fall, the superintendent recommended cutting \$15 million. Later, the amount to be cut dropped to

\$9.1 million (\$4.25 million to come from school sites, and \$4.85 million to come from central office functions). But, due to prior contractual obligations, the proposed cuts were not fully implemented, further exacerbating the district's financial woes.

The laundry list of errors and poor decisions contributing to the fiscal crisis was familiar and striking.

The state's Fiscal Crisis and Management Assistance Team found that "the district's policies and procedures in the area of budget development and monitoring are minimal and do not meet the applicable professional standards."

- Errors in enrollment estimates reduced district revenue by \$3.9 million.
- Failure to reduce teacher overstaffing to match actual enrollment cost another \$3.2 million.
- The Board of Education used the self-insurance fund to help the district stay afloat, underfunding it by \$30 million.
- Ever-growing pension costs and the skyrocketing cost of special education's unfunded mandates overwhelmed the district.

In fact, OUSD has been in financial peril for more than 15 years. In June 2002, OUSD's board believed it had a budget surplus. By January 2003, the district found it was tens of millions of dollars in debt and unable to meet its obligations to students and staff. Six months later, the state of California placed the district in receivership and made an emergency \$100 million loan. OUSD still owes \$30 million on that loan.

At that time, the state's Fiscal Crisis and Management Assistance Team (FCMAT), an independent agency designed to help California's local educational agencies fulfill their financial and management responsibilities, found that "the district's policies and procedures in the area of budget development and monitoring are minimal and do not meet the applicable professional standards."

Faced with another ocean of red ink, early last year OUSD's new school superintendent hired FCMAT again to analyze the district's current finances. In its August 2017 report, FCMAT concluded, "The district has lost control of its spending, allowing school sites and departments to ignore and override board policies by spending beyond their budgets. In many cases, board policies are knowingly ignored and/or circumvented without consequences."

Educational Performance

Student performance has long been recognized to be a measure of the quality of the educational services provided. It is no coincidence that well-run districts have high student achievement. Unfortunately, OUSD’s test scores mirror its governance issues. While some innovative programs, especially those directed toward English learners, have shown progress, student performance at too many schools has been described by witnesses as miserable.

For instance, the Grand Jury heard testimony that seven in ten African American students in the district read below grade average. Overall, since 2014, nearly half of the students in OUSD (46% -48%) failed to meet the lowest level of English language arts and literacy achievement and just over half (52%) failed the lowest level in math. The chart below shows recent performance data from the state of California.

Area Performance Level	3 rd Grade	4 th Grade	5 th Grade	6 th Grade	7 th Grade	8 th Grade	11 th Grade	Average
Reading: How well do students understand stories and information that they read?								
Above Standard	15%	13%	15%	10%	12%	13%	16%	13%
Near Standard	37%	35%	36%	34%	39%	37%	44%	37%
Below Standard	48%	52%	49%	57%	49%	50%	40%	49%
Writing: How well do students communicate in writing?								
Above Standard	15%	13%	18%	12%	14%	13%	16%	14%
Near Standard	39%	39%	37%	40%	44%	41%	39%	40%
Below Standard	47%	48%	45%	49%	42%	46%	45%	46%
Mathematics: How well can students show and apply their problem-solving skills?								
Above Standard	19%	14%	13%	9%	10%	9%	5%	12%
Near Standard	40%	39%	30%	35%	38%	45%	40%	38%
Below Standard	41%	46%	56%	56%	51%	46%	54%	50%

Area Performance Level	3 rd Grade	4 th Grade	5 th Grade	6 th Grade	7 th Grade	8 th Grade	11 th Grade	Average
Communicating/Reasoning: How well can students think logically and express their thoughts in order to solve a problem?								
Above Standard	18%	15%	12%	9%	11%	7%	7%	12%
Near Standard	49%	37%	37%	45%	47%	46%	50%	44%
Below Standard	33%	48%	51%	46%	42%	47%	43%	44%

In 2016, only a third of OUSD high school seniors were prepared to go to college. And in five of the seven major performance indicators used by the state – English language progress, college and career readiness, chronic absence rates, English, and mathematics skills – OUSD scored in the average or lowest category.

A weary community and the new superintendent inherited these problems. The new leadership immediately began to educate the public and other stakeholders about the district’s financial missteps with a transparency that had not previously existed. With the help of FCMAT and a new fiscal advisor appointed by the state, the superintendent began developing proposals to help reestablish financial order.

In its investigation this year, the Grand Jury focused on the chief drivers of this cycle of debt and poor educational performance. Our hope is to support changes that set the district on a path toward fiscal sustainability, which will, in turn, create the kind of managerial and educational excellence that students, parents and staff deserve.

INVESTIGATION

In order to understand the sources of financial instability, chaotic decision-making and poor student performance experienced by the district, the Grand Jury heard testimony from elected officials, current and former district administrators and staff, and local and state education experts. The Grand Jury also examined staff reports, FCMAT materials, and dozens of other finance and student performance documents, and watched OUSD board meetings both in person and electronically. We found seven major hurdles that the district needs to overcome.

Ad Hoc Decision-Making

In September 2017, OUSD opened its first dual language middle school, the School of Languages (SOL), and the Rudsdale High School for sixteen to eighteen-year-old students who are at risk of not graduating from comprehensive high schools. Each was opened in response to the community's clamor for quality schools and each was championed by the district's head of Continuing School Improvement.

Opening a new school can cost as much as one million dollars just to pay for required staff: a principal, a minimum of six teachers, a counselor and a custodian. Reopening at a vacated site also requires construction work to bring the buildings up to code. Witnesses told the Grand Jury that SOL and Rudsdale were a surprise to the central budget office. It didn't learn about the new schools until seven months

before they were to be opened.

Notification came just days

before OUSD was supposed to

present a new budget and while

the district was in the middle of

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a budget freeze. The Grand Jury heard testimony that the OUSD Board of Education did not have a complete understanding about how much the new schools would actually cost, but approved them anyway because of the academic value of the programs, community pressure, and moving presentations during board meetings.

From a best practices standpoint, opening a school requires significant financial planning. Budget planning is a complicated process that takes months and requires district officials to prioritize funding needs and ensure that new programs have sustainable ongoing revenue sources. The Grand Jury heard testimony that the proposal to add these two new schools came shortly before the budget process closed and was not subject to the same level of scrutiny given to other programming needs. Since it was obvious that SOL and Rudsdale would not be financially self-sufficient – they were so small that per-pupil funding from the state would not cover compensation for required staff – the district needed to raid its already diminished reserves and other funds to operate them.

Decisions like these, that circumvent established policies and financial best practices, are not uncommon. The Grand Jury heard testimony about other school site personnel or community leaders approaching board of education members directly to propose a new program or additional positions rather than going through normal channels at the central office or through the superintendent. One witness called it the “squeaky wheel” process. The central office staff would often capitulate to the desires of individual board members to keep in their good graces, and the members themselves capitulated to pressure from the community members who had elected them, contrary to the financial well-being of the district.

This is a grave mistake by staff and the board. Elected board members do not have individual powers to direct staff but rather collective powers to set broad policy and hire a superintendent. The superintendent’s responsibility is to run the day-to-day operations of the district and to propose new initiatives to the board that might come from lower-level school leaders. When individual board members intervene in the day-to-day operations of the district by proposing new positions and circumventing the regular budgeting processes, financial best practices go out the window and the governance structure breaks down.

Position Control

Another of the structural budgetary problems exposed by the opening of the new schools was the district’s failure to maintain an effective position control system. This allows the district to track staffing allocations along with payroll by assuring that there are no new hires unless there is money in the budget to pay for them. The new positions in the recently opened schools were created outside of standard position control policies. If best practices had been followed, the district would have realized they had no money to fund the positions.

The Grand Jury learned that such practices were commonplace. FCMAT reported that the former superintendent rushed new unfunded positions through the process without regard to budget appropriation. The Grand Jury heard testimony that he created or reclassified 66 non-teacher positions, giving pay increases to people with the same or similar responsibilities without budgeting for the new positions. This cost the district millions.

Also, the Grand Jury heard testimony that five teachers had been hired for an after-school program without budget authority or even the principal’s knowledge. These decisions are not

single-year budget problems, but have significant long-term impacts because the new positions must be funded every year going forward.

Commenting on the position control issue, one witness said, “This is why FCMAT says we have lost control of our spending.”

School Site and Department Autonomy

Individual schools and departments have annual allocations and the authority to spend that money, sometimes over the objection of the central office and the board of education. Last year, to address a significant budget shortfall, the superintendent gave schools 24-hours’ notice of an impending spending freeze. Many OUSD school officials spent what remained in their annual allotments the next day. The result was millions in lost savings and pointed criticism of the district from FCMAT for “allowing school sites and departments to ignore and override board policies.”

Local staffing decisions have also been problematic. Some schools have a long history of ignoring the rules for how overtime is to be paid, making it difficult for those writing the district’s budget to plan accordingly. Witnesses described how some principals ignored budgetary restrictions and policies by elevating staff not otherwise eligible for salary increases or promotions to new, higher positions without first confirming that the school budget had money to cover the added expense. In addition to creating district budget deficits, this practice led to serious morale problems at the schools involved.

Budget problems at school sites are aggravated by the fact that many on-site officials lack training to understand how to:

- Improve the budget development process by accurately projecting enrollment, revenues and expenditures.
- Improve budget controls and monitoring to prevent budget overruns.
- Improve the accuracy and timeliness of recording and reporting accounting transactions and information.

High Staff and Program Turnover

Governance and management of large public school systems are challenging undertakings, and are made even more difficult when there is constant new management championing new programs and advancing new ideas for how to move forward.

OUSD has had five superintendents in the last nine years, 12 budget directors in 12 years, and each year there are dozens of new principals managing schools and scores of new teachers taking over classrooms.

Frequent turnover has created whiplash. Every new superintendent comes in with bold new ideas to address urgent problems, but ends up finding it difficult to deliver. Consequently, the board, staff, principals, teachers and students have been regularly subjected to new plans, few of which have been successfully implemented.

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Experts call it churn: staff churn, teacher churn, and program churn. Almost as soon as new ideas and new ways of operating are instituted there is a change. That means those plans and those implementing them never get a chance to determine if they

might work. Witnesses admitted that it is very difficult, if not impossible, to teach students and serve their other needs in this kind of an environment. They described a direct correlation between high educational performance and low administrative and teacher turnover.

This churn has other adverse consequences: no consistent clear goals for the district, no well-established mechanisms to hold persons accountable, and no agreed-upon consequences for persons who do not follow the rules.

Lack of Transparency and Trust

While attending school board meetings, members of the Grand Jury were struck by the animosity between the public and the board and superintendent. This observation was confirmed by witness testimony. Much of the often-loud discussion centered on the budget and how members of the public generally did not believe the numbers.

From what the Grand Jury was told, that lack of trust was justified. We heard testimony that, in some cases, finance officers were instructed to withhold “bad news” from the board and other decision makers. Witnesses confirmed that the previous superintendent and other leadership instructed staff not to tell the board that the system could be as much as \$30 million over budget.

In addition, witnesses described to the Grand Jury various ways that officials hide money off the budget to fund special projects and take personnel actions. One is called *vacancy offset savings*. At the beginning of each year, budget staff estimates how many positions will be filled. If positions go unfilled, that creates a pool of money that can be spent. The problem is that budget writers regularly overestimate the number of positions, allowing the excess funds to be available for previously unbudgeted expenses. Last year there were \$15 million in such “savings.” Although not illegal, the use of vacancy offset savings lacks transparency and puts OUSD leaders at a disadvantage when making decisions.

Too Many Schools for Declining Enrollment

Over the last 15 years, student enrollment in OUSD-operated schools has fallen from nearly 54,000 to approximately 37,000. Because state funding formulas are based on student attendance, declining enrollment results in decreased revenue. Yet, witnesses say, OUSD operates as if there has been no decline in enrollment. Oakland currently operates 87 district-run schools, making the average school size 412 students. In comparison, Fremont Unified School District has a student population of 35,000 but operates only 42 schools. Its average school size is double that of Oakland. San Jose Unified School District operates 41 schools with a student population just over 30,000, making its average school size 731 students.

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Smaller schools may sound enticing but are a huge financial drain when they are operating in a larger facility at less than capacity. Not only do they feel empty, but OUSD has more of them to serve the same number of students than other districts.

For instance, Markham Elementary had 419 students eight years ago but shrank to 363 students in 2016-2017. The school has the capacity to hold almost 600 students. West Oakland Middle School went from 215 to 179 students over the same period at a school site designed to hold 759,

and Hoover Elementary went from 318 to 282 at a site that can accommodate over 500. Many of these under-enrolled schools are not self-sustaining because the state funding they receive per student cannot cover the cost of the site staffing. When teachers staff under-enrolled classrooms, the district must employ more teachers than other districts with similar student populations. As a result, OUSD is forced to supplement the under-enrolled schools with funds that could, and perhaps should, be going to other schools in the district with larger student populations. This

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ultimately causes financial difficulties for every school in the district and affects the quality of the education available to students.

The district has made many attempts through the years to close or consolidate under-enrolled schools, but these efforts have been met with intense backlash from teachers, parents, and students. Each of the last five superintendents has acknowledged that the district is operating too many schools, yet each has failed to convince the school board to make the difficult decisions in the face of community backlash. Nearly a decade ago, the superintendent then in office lobbied to close 25 to 30 schools to bring the district in line with actual enrollment. After closing five schools, enormous community criticism followed. He departed from the job a short time later.

This situation makes the opening of SOL and Rudsdale this year even more astonishing. To its credit, at the direction of the new superintendent, the district is developing the Blueprint for Quality Schools. A broad group of stakeholders has conducted an examination of facility conditions, adequacy, and capacity. Their findings show that OUSD operates 35 schools with fewer than 400 students. Thirty-six of the school sites are at 75% capacity or less, and 17 school sites are operating at 60% capacity or below. Importantly, 20 of the under-enrolled schools are also underperforming academically. After a series of public meetings, the Blueprint committee will make recommendations for school consolidation.

In the Grand Jury's investigation it became clear that schools need to be consolidated if the district is to survive. To do so, the board must begin by explaining to the public the financial and educational consequences of operating too many schools. Ultimately, the board needs to consolidate schools even if opposition remains strong.

The Charter School – Public School Wars

School size and campus utilization become more complicated when charter schools are included in the equation. A number of OUSD campuses house both charter and traditional public schools as a result of a state law that requires a school district to offer vacant campus space to charters. The Grand Jury heard examples of where the relationships between charters and district schools are unproductive mainly because administrators and teachers treat the other as competitors. But we also heard testimony about how they might work together productively.

While charter and district run schools operate independently, the Grand Jury learned that opportunities exist where collaboration between the schools at these shared campuses can help ease financial burdens on both organizations and, more importantly, improve the educational experience for children.

Opportunities exist where collaboration between public and charter schools at shared campuses can help ease financial burdens on both organizations and, more importantly, improve the educational experience for children.

At East Oakland’s Castlemont campus, OUSD operates a traditional high school and shares the campus with a charter high school. Great effort has gone into repairing relationships that had been strained for years. Now, administrators from both schools meet regularly; security

personnel coordinate their efforts; and sports teams that wouldn’t exist because of lack of participation are now drawn from both schools. In addition, Proposition 51 funds were used to rebuild part of the campus to house college-level classes open to students from both schools.

Teacher collaboration lags behind administrative cooperation due to longstanding organized labor animosity towards charters, but collaboration must be encouraged when it is in the best interest of students.

Charter schools and traditional public schools need to learn to coexist and must take advantage of opportunities to improve relations and better serve students.

CONCLUSION

The “U” in OUSD stands for unified. It is clear that there is little unity in the Oakland school system. Staffs come and go. Administrators come and go. So many ideas tried but so little to show for that effort. Trust and unity comes from achieving something. Failure breeds mistrust

and that mistrust can be infectious. Principals won't trust that a new superintendent can deliver. Teachers won't trust that a principal will last. Most troubling of all, these can lead to a system that thinks its students cannot deliver.

On its website, OUSD makes five commitments to the citizens of Oakland:

- Provide every student with access to a high-quality school
- Ensure each student is prepared for college, career, and community success
- Staff every school with talented individuals committed to working in service of children
- Create a school district that holds itself and its partners accountable for superior outcomes
- Guarantee rigorous instruction in every classroom, every day

The Grand Jury has determined that the district has failed in at least three of these commitments.

FINDINGS

- Finding 18-6:* Staff and Board of Education efforts to circumvent established budgeting policies along with board efforts to interfere in the administrative responsibilities of the superintendent invite financial instability and contribute to Oakland Unified School District's financial problems.
- Finding 18-7:* Oakland Unified School District's inability to control overstaffing and poor position control decisions have contributed to the district's financial instability.
- Finding 18-8:* Lack of transparency related to Oakland Unified School District's financial positions has led to mistrust between the district, the community, and labor organizations.
- Finding 18-9:* High turnover of key administrators has created an atmosphere of mistrust, destroying the continuity of the district's educational mission, and crippling the district's effectiveness in addressing its most pressing fiscal issues.

- Finding 18-10:* Financial instability and high staff turnover contribute to poor student performance.
- Finding 18-11:* Operating 86 schools is unsustainable and will lead the district to insolvency.
- Finding 18-12:* Collaboration between traditional public schools and charter schools operating in the district benefit all students in Oakland Unified School District.

RECOMMENDATIONS

- Recommendation 18-7:* The Oakland Unified School District Board of Education must participate in governance training, emphasizing that they are policy makers, not day-to-day administrators.
- Recommendation 18-8:* The Oakland Unified School District Board of Education members must communicate with district officials through the superintendent.
- Recommendation 18-9:* The Oakland Unified School District must establish a position control system that tracks staff allocation and spending, and better interfaces with payroll systems.
- Recommendation 18-10:* The Oakland Unified School District must provide school site administrators with comprehensive training regarding position control and budgetary policies.
- Recommendation 18-11:* The Oakland Unified School District must not hire any new staff or institute any new program unless there is money in the budget beforehand to fund them.
- Recommendation 18-12:* The Oakland Unified School District must develop a transparent budget platform that better informs the Board of Education and the public regarding long-term consequences of financial decisions.

Recommendation 18-13: School occupancy must be assessed and painful decisions made regarding closure and consolidation as soon as possible.

Recommendation 18-14: The Oakland Unified School District must expand collaboration between traditional district-run schools and charter schools, especially those sharing campuses.

RESPONSES REQUIRED

Board of Education, Oakland Unified School District
Findings 18-6 through 18-12
Recommendations 18-7 through 18-14