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BGR Report Analyzes School Board's Performance as Financial Steward

Today BGR releases *The Accidental Steward: The Orleans Parish School Board as a Resource Manager in the Reform Era*. The report examines the Orleans Parish School Board's performance as the financial steward for all public schools in Orleans Parish.

This report is the first of a two-part series on public school governance in Orleans Parish. It focuses on the School Board's performance and makes recommendations that can be implemented within the existing legal framework. In the next report, BGR will address the broader question of what is the most appropriate governance structure for New Orleans' unique system of public schools.

Despite the highly decentralized nature of today's system, the School Board controls key financial functions for the system as a whole. It alone exercises the taxing and bonding authority for public schools in New Orleans. It alone determines how certain revenue streams and resources are spent. The School Board's decisions in these arenas affect all public schools in the parish, not just the few that it operates. For that reason, it is imperative that the board manage the school system's resources for the benefit of the system as a whole.

BGR analyzes the School Board's financial stewardship from several angles. First, it looks broadly at how the board has managed its financial position since Katrina. It then delves into its allocation of its financial resources. In addition, it reviews the board's process for making financial decisions in areas that affect all public schools in New Orleans.

Managing the Finances. The report finds that the School Board has dramatically strengthened its financial position since the Katrina disaster. It has revamped its accounting practices and now receives clean audits and solid bond ratings. And thanks largely to the infusion of extraordinary state and federal funding after the disaster, it has reduced its debt burden, grown its net assets and increased its liquidity. But challenges remain, including

inadequate funding for facility maintenance and the potential cost of a class action lawsuit brought by former employees.

Allocating Resources. The School Board receives funding in a number of different capacities. It receives some funds to operate its direct-run schools, some to pay for oversight of its charter schools and others for responsibilities it discharges on behalf of both. It also receives revenues in its capacity as the resource manager for the public school system as a whole. BGR calls these systemwide resources Common Resources.

BGR begins its analysis with the premise that the School Board should use Common Resources to meet systemwide obligations and costs. To the extent that Common Resources exceed common expenses, the board should apply the excess in ways that benefit all public school students in Orleans Parish. Common Resources should not be appropriated by the School Board for the exclusive or disproportionate use of its direct-run or charter schools.

BGR attempted to determine whether the School Board has been properly applying its Common Resources by examining how it has spent its General Fund Balance since Hurricane Katrina, and whether or not it has spent disproportionately on its direct-run or charter schools since the disaster.

BGR found that, due to large infusions of disaster-related cash, the General Fund Balance grew from a negative position in the 2005 school year to nearly \$139 million by the end of the 2007 one. Thereafter, it declined to \$46.4 million. About \$27 million of the decline was due to timing differences in the receipt and disbursement of funds. The School Board used another \$10 million to meet certain state-mandated obligations to charter schools and the Recovery School District. Most, but not all, of the balance was used to support Common Expenses.

BGR was unable to determine whether the School Board had spent disproportionately on its direct-run or charter schools since Katrina. Limitations in the School Board's financial recordkeeping made a multiyear analysis impractical. Instead, BGR limited its analysis to fiscal 2011, the most recent year for which financial statements were available when BGR conducted its research. While the analysis sheds light on current practices, it does not provide insight into the School Board's spending practices in prior years.

BGR's 2011 analysis indicates that the School Board overspent on its direct-run and charter schools by a total of \$2.1 million, or 5% of its General Fund resources. In overspending, it used Common Resources that should have been available for the needs of the system as a whole.

In the course of its research, BGR uncovered two serious weaknesses in the School Board's financial management. First, the School Board does not track or report expenditures by types of schools. As a result, neither the public nor school officials can tell whether the School Board is properly allocating resources. This is a major transparency issue. Second, the board has no policy on the use of the General Fund Balance, Common Resources or resources that it receives for its charter/direct-run schools. It can, if it so chooses, spend the remaining General Fund Balance

disproportionately on its direct-run or charter schools. It can also spend Common Resources and a disproportionate amount of Charter/Direct-Run Resources on its direct-run or charter schools.

Making Systemwide Decisions. The School Board is the sole taxing and bonding authority for all public schools in New Orleans. Its decisions in these areas affect the financial position of all schools. Yet the School Board does not have a formal or informal process for consulting other school operators. BGR explored a range of options to address the communication gap. It concluded that the School Board should provide school operators with detailed advance notice of decisions with systemwide implications and special presentations on such issues.

“The Orleans Parish School Board has dramatically improved its financial management since Katrina,” BGR Chairman J. Kelly Duncan said. “But it doesn’t have the systems in place to ensure a fair distribution of resources. The board can and should address these problems immediately.”

Recommendations. BGR’s report makes the following recommendations:

To promote good financial stewardship, BGR recommends that the School Board:

- Expand budgeting, financial record-keeping and reporting to track revenues, expenditures and changes in the General Fund Balance according to the types of schools that benefit from them (i.e., the School Board’s direct-run schools, its charter schools, both its direct-run and charter schools, and the system as a whole).
- Publish annually a summary of revenues, expenditures and changes in the fund balances by types of schools. The report should be made available on the School Board’s website.
- Adopt a formal policy requiring the School Board to use Common Resources for common expenses and other purposes that benefit all students in Orleans Parish.
- Adopt a formal policy requiring the School Board to use funds it receives on behalf of both its charter and direct run schools for expenses it incurs on behalf of those schools collectively. The policy should require the School Board to place any remaining funds in reserve to meet those schools future common needs or to allocate them proportionately among its charter and direct-run schools.
- Adopt a formal policy to govern the use of the General Fund Balance. The policy should direct the superintendent to:
 - Create reserve accounts within the General Fund Balance for common expenses, expenses related to the School Board’s charter and direct-run schools, expenses related solely to its charter schools, and expenses related solely to its direct-run schools.

- Place the current unassigned portion of the General Fund Balance into the reserve account for Common Expenses.
- Allocate future increases in the General Fund Balance to the appropriate reserve account (e.g., surplus Common Resources should be placed in the reserve account for common expenses).

The policy should restrict the use of the reserve account for common expenses to extraordinary expenses, such as those arising from natural disasters or other emergencies, that relate to the system as a whole. The policy should specifically prohibit the use of the account for non-emergency capital expenditures or recurring operating expenditures.

To promote informed decision making on issues with systemwide implications, the School Board should:

- Provide school operators with advance notice of any proposed action on matters with systemwide implications. The notice should describe the proposed action and explain how it would affect different types of schools.
- Hold meetings for interested school leaders on matters with systemwide implications. At the meeting, the School Board's representatives should provide information and solicit feedback from those in attendance.
- Respond in writing to pertinent comments received from school operators on matters with systemwide implications.

The Accidental Steward is available on BGR's website, www.bgr.org.

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BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 525-4152 or visit BGR's website, www.bgr.org.