

NOW

BGR's Spotlight on Local Government Issues

School Board Takes a Key Step Toward Better Stewardship

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ON OCTOBER 20, the Orleans Parish School Board unanimously adopted a new policy to govern the use of its operating reserves, which currently exceed \$45 million.¹

These reserves are a precious resource for the school system, consisting mostly of unspent state and federal funds provided to the school system after Hurricane Katrina. Until now, the School Board had no policy on the use of this money: The board could have spent it disproportionately to benefit the six schools it operates, for example, rather than to meet systemwide needs. Moreover, it would have been difficult for the public to tell whether these things were happening, since the School Board does not track or report expenditures by school type.

BGR flagged these vulnerabilities in [a 2013 report](#). In that report, BGR called on the School Board to set aside the operating reserves for the emergency or extraordinary needs of the system as a whole.² The system as a whole includes the School Board's direct-run schools, its charter schools and the schools chartered by the state Board of Elementary and Secondary Education.

An Important Step

The School Board's newly-adopted policy addresses BGR's recommendation. Specifically, the new policy reserves more than 90% of the current fund balance for the system as a whole. It limits spending of that reserve to emergencies and other "unforeseen, exceptional circumstances."³ These include, but are not limited to, circumstances such as an unanticipated loss of system revenues that threaten to disrupt school services or an unanticipated change in the student population. In addition,

the policy requires that any fund balance expenditures must be recovered from future tax revenues distributed by the School Board to schools city-wide. The maximum recovery period is five years.

The remainder of the fund balance, about \$3.5 million, will be set aside as operating reserves for the School Board's six direct-run schools.⁴ Each school's reserve can be tapped only in "unforeseen, exceptional circumstances." And, like expenditures from the systemwide reserve, the money must be paid back from the school's future revenues, over a maximum recovery period of three years.

The new policy also establishes a transparent framework for School Board decisions to tap the systemwide and individual school reserves. It requires the School Board to take separate votes to declare the exceptional circumstance and make the appropriation, with each vote requiring a supermajority to pass.⁵ Any changes to the policy itself will also require a supermajority vote of the board.⁶

The Next Steps

The new policy is an important step by the School Board toward good financial stewardship for all public schools in New Orleans. But the board should not stop there. It should continue to improve its transparency and accountability in other areas, as recommended in BGR's 2013 report. In short, the board should:

- Expand its accounting and financial reporting to track General Fund revenues and expenditures by the types of schools that benefit from them.
- Adopt policies requiring the board to use certain revenues for the benefit of those schools for which they were received.
- Enhance its communications with school operators on financial decisions with systemwide implications.

The School Board has made some progress toward these goals. Its administration has begun planning the accounting and reporting upgrades at the heart of these improvements. In 2014, the

School Board and the state Recovery School District agreed to develop a common accounting process for common funds.⁷ This year, the board hired consultants to review its existing accounting and cost allocations. It is currently seeking additional funding to make changes to its accounting system. The School Board's superintendent hopes to have the changes in place by next year, before developing the budget for 2016-17 school year.

BGR urges the School Board to continue its efforts to achieve greater financial transparency and accountability for resources it manages on behalf of its own schools, its charter schools and the system as a whole. Doing so will help ensure that resources are properly allocated citywide and increase confidence among all schools that depend on the board's financial stewardship.

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ENDNOTES

1 The board adopted the policy as part of a set of revised fiscal management policies. The fund balance is as of April 2015, based on the most recent financial statement provided to the School Board.

2 Bureau of Governmental Research, *The Accidental Steward: The Orleans Parish School Board as a Resource Manager in the Reform Era*, April 2013, pp. 3-4.

3 Under the newly-adopted policy, most of the system reserve (an amount equal to 15% of gross tax revenue, or about \$37.5 million based on 2014 figures) will secure short-term debt that finances all schools in the months before the bulk of tax collections are received. The corpus (or base) can be spent only in an emergency as defined in state law and must be replenished from future revenue. The remaining system reserve can only be spent on unforeseen, exceptional circumstances as defined in the policy.

4 Each school's reserve will equal 12.5% of the school's annual operating budget. Based on this year's budgets, BGR estimates their initial reserves will total approximately \$3.5 million.

5 Both the superintendent and the chief financial officer of the School Board must recommend the declaration to the board.

6 The new fund balance policy may be amended, rescinded or temporarily suspended only by a two-thirds vote of the School Board.

7 Cooperative Endeavor Agreement between the Orleans Parish School Board and the Recovery School District, March 20, 2014, Sec. 4.1.