A Report from the Bureau of Governmental Research

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THE ACCIDENTAL STEWARD

The Orleans Parish School Board as a Resource Manager in the Reform Era

SCHOOL GOVERNANCE
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EXECUTIVE SUMMARY

Prior to Hurricane Katrina, the public school system in Orleans Parish generally resembled the traditional, centralized model that prevails in the United States. After the disaster, the system was radically transformed and today New Orleans is home to the most highly decentralized system in the nation. Two districts operate schools in the city, and more than 80% of the public schools are chartered. The Orleans Parish School Board directly operates a mere handful of schools. The majority of schools are overseen by the Recovery School District (RSD), a state entity established to take over failing public schools.

However, the School Board maintains central control over key financial functions. 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 School Board manage the school system's resources for the benefit of the system as a whole.

In this report, BGR examines how well the School Board is performing in its role as the financial steward for all public schools in Orleans Parish. To gauge this, BGR analyzes the following:

- How the School Board has managed its financial position since Katrina.
- How it has spent its General Fund Balance since Katrina.
- Whether or not the School Board spent disproportionately on its direct-run or charter schools in fiscal 2011, the last year for which audited financial statements were available when BGR conducted its research.

In addition, BGR reviews the School Board's process for making financial decisions in areas that affect all public schools in New Orleans. Finally, it makes recommendations for changes in the financial and governance arenas that can be implemented within the existing legal framework.

The scope and findings of this report are subject to several important limitations:

- BGR's analysis of revenues and expenditures, other than those relating to the General Fund Balance, is limited to one year, fiscal 2011. While the analysis provides a snapshot of relatively recent practices, it does not provide insight into the School Board's spending practices in prior years. Ideally, BGR would have looked at all of the post-Katrina years. However, that analysis would have required complex and time-consuming deconstruction of the School Board's financial records. To engage in that effort for multiple past years would have placed an extraordinary burden on the School Board's staff without commensurate benefits. As a result of this limitation, BGR was unable to reach a conclusion as to the appropriateness of the School Board's General Fund spending in earlier years.
- Key parts of BGR's analysis are based on estimates and expense allocations provided by the School Board. BGR has reviewed the information for discrepancies, but it has not verified the underlying data.
- BGR does not explore the efficiency of the School Board's operations or the School Board's performance in the area of facilities. Nor does it analyze the RSD and the services it provides for the benefit of the system as a whole.

Managing the Finances

Since the Katrina disaster, the School Board has greatly improved its accounting practices and now receives clean audits. In connection with its bond refinancing in 2010, the School Board received solid bond ratings. 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.

On the whole, the School Board's financial position has dramatically improved. However, it still faces significant challenges. These include inadequate funding for facility maintenance and repair and the potential cost of a class action lawsuit brought by former employees.

Allocating Resources

The School Board wears a number of different hats and receives funding in different capacities. As the operator of six schools, it receives funds intended for those schools and, as the authorizer for 12 charter schools, it receives a fee to oversee them. As the administrator of various grants for the schools it charters and operates, it receives grant funds on their behalf.

In addition, the School Board serves as the resource manager for all public schools in New Orleans, including those that were transferred to the RSD. As the resource manager, it receives revenues for the public school system as a whole. These "Common Resources," as BGR calls them, include recurring revenues, such as State Revenue Sharing funds, and extraordinary revenues, such as post-Katrina relief funds provided by the state and federal governments.

As the resource manager, the School Board manages the finances of the public school system as a whole. It owns all public school buildings in New Orleans, and together with the RSD is responsible for planning and construction in accordance with the School Facilities Master Plan for Orleans Parish. It is responsible for paying the public schools' debt service and legacy costs inherited from the pre-Katrina, unified school district and its break-up. In discharging its responsibilities as the resource manager, the School Board incurs operating costs. BGR refers to these obligations and costs as "Common Expenses."

This report proceeds from the premise that the School Board should use Common Resources to meet Common Expenses. 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. Examples include the maintenance of an appropriately sized fund balance, the allocation of funds for high-priority needs (e.g., supplemental funding for students with special needs) on a systemwide basis, and the distribution of excess funds on a per-pupil basis. Common Resources should not be appropriated by the School Board for the exclusive or disproportionate use of its direct-run or charter schools.

There are a couple of corollaries to this premise. First, the School Board should use resources attributable to its charter and direct-run schools collectively (Charter/Direct-Run Resources) to meet eligible expenses incurred on behalf of both types of schools. Any remaining funds should be proportionately allocated among both types or placed in reserve to meet future common needs. Second, the School Board should not have to dip into funding it receives for its direct-run schools to support Common Expenses or those related to charter oversight.

Between fiscal 2006 and fiscal 2012, the School Board received Common Resources totaling $755.3 million. It spent or set aside $563 million for three Common Expenses: debt service, capital projects and services to nonpublic schools in Orleans Parish. It placed the rest into the General Fund. Approximately two-thirds of the remainder ultimately made its way to the General Fund Balance.

To determine whether the School Board has been using the Common Resources that flowed to the General Fund to meet Common Expenses, BGR reviewed expenditures from the General Fund Balance since Katrina.

Prior to Katrina, the School Board's General Fund Balance had a negative balance. But, thanks largely to an infusion of extraordinary resources following the disaster, the General Fund Balance grew to $139 million by the end of the 2006-07 school year. By the end of the 2011-12 school year, it had fallen to $46.4 million.

Approximately $27.2 million of the growth and decline of the fund balance was attributable to timing differences in the receipt and disbursement of local taxes that the School Board owed the RSD. The School Board dipped into the fund balance to cover the payment of another $3.6 million of local taxes owed the RSD. While the School Board contends that $1.4 million of that amount represented a state-mandated disproportionate allocation of local revenue to the RSD, it had no explanation for the remaining $2.2 million. In essence, it used the tax revenues intended for the RSD for other purposes and consumed Common Resources to meet its pass-through obligation.

The School Board used $6.2 million from the General Fund Balance to meet a state-mandated obligation to charter schools. In this case, there was no offsetting revenue source to tap. With the arguable exception of a $6.3 million outlay for the School Board's headquarters, the board's other expenditures from the General Fund Balance were for Common Expenses.

Approximately one-third of the Common Resources that entered the General Fund never reached the General Fund Balance. Rather, they were spent during the fiscal year in which they were received. For BGR to determine whether those resources were spent for Common Expenses, it would have to deconstruct the School Board's financial records for all post-Katrina years. BGR did not undertake that analysis because, as noted previously, it would have been impractical and of limited utility. Instead, it limited its analysis to General Fund revenues, expenditures and transfers in fiscal 2011, the most recent year for which financial statements were available at the outset of this study.

BGR's analysis revealed that the School Board overspent on its direct-run schools that year by approximately $1.2 million. It also overspent on its charter schools by $845,000. In the latter case, the overspending was attributable to unreimbursed expenses incurred by the School Board for property insurance on buildings occupied by charter schools. These totaled approximately

$1.6 million. Subsequently, the School Board changed its charter contracts to require reimbursement. Had the current contracts been in effect in 2011, the School Board's charter-related revenues would have exceeded expenses by $711,000.

The School Board's overspending on its direct-run and charter schools in 2011 totaled $2.1 million, or 5% of its General Fund resources. In overspending, the School Board used Common Resources that should have been available for the needs of the system as a whole. As noted earlier, the 2011 numbers do not shed light on the School Board's spending practices in prior years.

BGR's review uncovered a number of 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. The magnitude of the problem is underscored by the fact that it took BGR several months to analyze the financial results for 2011.

Second, the board has no policy on the use of Common Resources or Charter/Direct-Run Resources. Nor does it have a policy on the use of the General Fund Balance. It can, if it so chooses, spend Common Resources and a disproportionate amount of Charter/Direct-Run Resources on either its direct-run or its charter schools. It can also spend the remaining $46.4 million General Fund Balance disproportionately on its own schools.

Making Systemwide Decisions

The School Board is the sole taxing and bonding authority for all public schools in New Orleans. Without consulting the RSD or charter schools, it can decide whether to roll the existing tax rate forward following an automatic roll-back. It also decides whether to ask voters to levy taxes for the school system and for what purposes. Without discussing the matter with the RSD and other school operators, it can also decide to incur debt to finance school facilities.

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. A number of charter school officials indicated to BGR that the School Board does not communicate with them adequately on systemwide issues. They also expressed concern that the School Board does not give their schools' needs sufficient consideration when making decisions that affect them.

To address these concerns, BGR explored a range of options, including detailed advance notice of decisions that affect school operators, special presentations on such issues to school operators by the School Board's superintendent, the creation of a representative advisory committee to the School Board and straw votes by school operators. While the need for notice and presentations is clear, it is not clear to BGR that an advisory committee or straw votes would add significant value. They are options that should be revisited if the other measures prove inadequate to bridge the communication gaps.

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 Charter/Direct-Run Resources for expenses it incurs on behalf of its charter and direct-run 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.

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 within the existing legal framework and makes recommendations that can be implemented within that framework. However, many of the problems identified in the report stem from the fact that the current governance structure was not specifically designed for the type of system in place today. In its next report, BGR will address the broader question of what is the most appropriate governance structure for New Orleans' unique system of public schools.

INTRODUCTION

Prior to Hurricane Katrina, the public school system in Orleans Parish generally resembled the traditional, centralized model that prevails in the United States. The Orleans Parish School Board (the School Board) was responsible for all functions related to the school system. It directly operated all but a handful of the 128 public schools in the city.

But with the disaster came a radical transformation. The state's Recovery School District (RSD) took over most of the schools, leaving fewer than 20 with the School Board.[1] The School Board immediately converted most of those schools into charter schools, and the RSD embarked on a program to charter the schools under its control. The end result was a highly decentralized system, composed mainly of charter schools.

As Chart 1 indicates, the School Board now directly operates only six schools and two educational programs for troubled youth. It is the chartering authority for another 12 schools. Currently, the RSD directly operates 12 schools. The remaining 56 RSD schools now operate under charters granted by the Board of Elementary and Secondary Education (BESE) at the RSD's request. BESE has granted an additional five charters for schools that belong to neither district, but are located in Orleans Parish. There are currently 48 entities operating public schools in Orleans Parish.[2]

While the operation of the schools is highly decentralized, the responsibility for key functions remains solely with the School Board. For example, the School Board is responsible for managing the finances of the public school 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 handful that it operates.[3] For that reason, it is imperative that the School Board manage the school system's resources for the benefit of the system as a whole.

In this report, BGR examines how well the School Board is performing in its role as the financial steward for all public schools in Orleans Parish. To gauge this, BGR analyzes the following:

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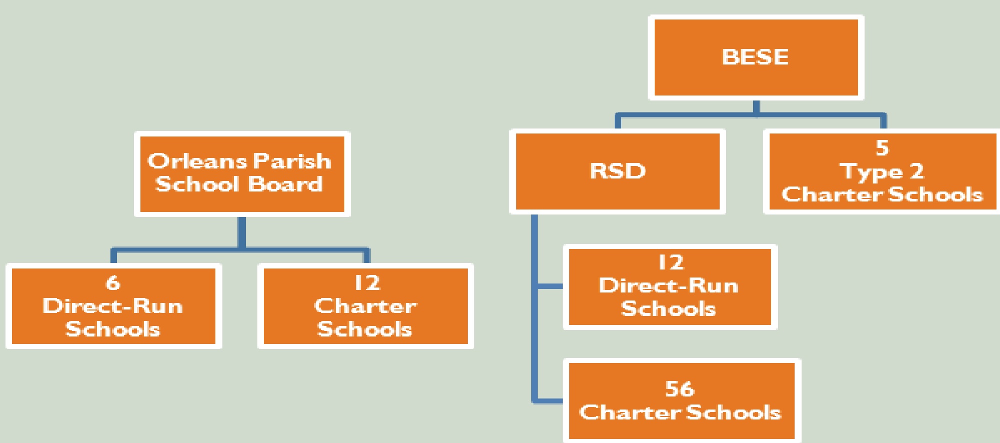
FINANCIAL HEALTH

Prior to Hurricane Katrina, the School Board struggled financially. Financial mismanagement and corruption both played a part. A March 2004 investigative audit estimated that from August 1997 to June 2003 terminated

CHART 1: 2012-13 ORLEANS PARISH SCHOOLS



Sources: Orleans Parish School Board, RSD and Louisiana Department of Education.

employees received more than $3 million in pay and benefits to which they were not entitled.[4]

An investigation by the FBI and other agencies into corruption in the school system led to 27 convictions.[5] In a separate case, a former School Board president was sentenced to 18 months in federal prison for her role in a bribery scheme.[6]

In 2004, the state Department of Education imposed "high-risk" financial status on the board, subjecting the district to greater financial scrutiny.[7] In the audit for that year, the auditors indicated that they could not express an opinion on the system's finances because of significant uncertainties and a lack of reliable financial data.[8] They also reported that the School Board had a net deficit in assets.[9] In 2005, the state Department of Education hired the private consulting firm Alvarez & Marsal to oversee the School Board's finances for two years.[10]

Since that time, the School Board has greatly improved its accounting practices and now receives clean audits. In connection with its bond refinancing in 2010, the School Board received solid bond ratings of Aa3 from Moody's and A+ from Standard and Poor's. In 2012, the district shed the state's "high-risk" financial status.[11]

Thanks largely to the infusion of extraordinary state and federal funding after Katrina, the School Board has reduced its debt burden, grown its net assets and increased its liquidity.

In 2005, the School Board's liabilities exceeded its assets by $100.4 million.[12] Now the situation is reversed. As of June 30, 2012, the School Board had assets of $488.5 million and liabilities of $331.3 million, leaving it with net assets of $157.2 million.[13] Long-term debt declined from $378.2 million in 2005 to $268.1 million in 2012, or by 29%. The ratio of current assets to current liabilities, an indicator of liquidity, rose from 2-to-1 in 2005 to 3.7-to-1 in 2012.[14]

Finally, the School Board has managed to bring total General Fund operating expenditures in line with available funding. General Fund revenues, together with approximately $3 million of federal grant funds for administrative costs, produced slight operating surpluses in the past two fiscal years.

Taken as a whole, the School Board's financial position has dramatically improved. However, it still faces significant challenges. These include inadequate funding for facility maintenance and repair and the potential cost of an unfavorable judgment in a class action lawsuit brought by former employees for wrongful termination after Katrina.[15] The School Board is appealing this judgment.

SCHOOL BOARD EXPENDITURES

An Analytical Framework

The School Board wears a number of different hats. It serves as the operator of six schools and two programs for troubled youth;[16] as the authorizer for 12 charter schools; as the administrator of various grants for the schools it charters and operates; and as the resource manager for the public school system as a whole in Orleans Parish.

As the operator of direct-run schools, the School Board is responsible for the management, operation, performance and finances of those schools. It must pay for on-site expenses, such as staffing, student transportation, and food and janitorial services.

To help it meet those responsibilities, it receives certain types of funding for the direct-run schools. These include a per-pupil allocation of local tax revenues, state funding through Louisiana's Minimum Foundation Program (MFP) and supplemental funding under various federal entitlement programs, including those for students from low-income families and those with special needs.

The School Board receives other funds on behalf of both its charter and direct-run schools. For example, it receives payments from the federal government to cover indirect costs associated with grants that it administers for both types of schools. In this report, BGR refers to these funding sources as "Charter/Direct-Run Resources."

As the authorizer for its charter schools, the School Board oversees the schools' performance under their charters. To help with the related expenses, it is entitled to 2% of its charter schools' MFP revenue and local tax revenue.

The School Board also receives revenues that are not specifically designated for the 18 schools and two programs in its district. In essence, it receives these revenues as the resource manager for the public school system as a whole. They include recurring revenues, such as State Revenue Sharing funds, and extraordinary revenues, such as the proceeds from Community Disaster Loans and Gulf Opportunity Zone Bonds. In this report, BGR refers to these funding sources as "Common Resources." For a list and brief description of Common Resources, see the sidebar.

As the resource manager, the School Board manages the finances of the public school system as a whole. It owns

WHAT ARE COMMON RESOURCES?

Bonds to Finance Capital Projects. The School Board periodically issues bonds to finance capital projects. For example, in 2011, it issued $79 million in Qualified School Construction Bonds.[17]

Community Development Block Grants. After Hurricane Katrina, the School Board received a special allocation of CDBG funds in the amount of $21 million for capital projects.[18] The federal government provides these funds to the School Board on a reimbursement basis.

Community Disaster Loans. The Federal Emergency Management Agency (FEMA) loaned the School Board nearly $60 million for operating expenses following Hurricane Katrina.[19] FEMA subsequently forgave $48.1 million of the debt.[20] Due to a recent change in law, the School Board can seek forgiveness of the balance.

Debt Service Deductions. The School Board levies taxes to cover, among other things, debt service for bond issues. It deducts the amount of the debt service from local tax revenues before giving its charters and the RSD their per-pupil shares.

FEMA Settlement Funds. FEMA has agreed to provide the School Board and the RSD with $2 billion to repair and rebuild school facilities damaged in the 2005 disaster.[21] FEMA allocated $393.7 million of that amount to the School Board for schools under its immediate oversight and control. It allocated the balance to the RSD, which currently controls most public school buildings in Orleans Parish.[22]

Funds for Special Programs. The School Board receives operating funds for educational programs for juvenile and young-adult inmates in the city's juvenile detention center and Orleans Parish Prison.

Gulf Opportunity Zone Bonds. From fiscal 2007 through fiscal 2009, the School Board borrowed $76.1 million from the State of Louisiana to cover debt service on its bonds.[23] The School Board has since repaid this borrowing.[24]

Harrah's Casino Proceeds. The lease agreement between Harrah's Casino and the City of New Orleans requires Harrah's to make annual contributions to the School Board. The lease agreement restricts the use of the money to capital projects in school facilities. The School Board splits the funding with the RSD on a per-pupil basis.[25]

Insurance Proceeds. At the time of Hurricane Katrina, the School Board held policies for flood and comprehensive damage. Through 2012, it had collected $64.7 million under those policies and had outstanding claims for $175 million.[26] The School Board retained approximately $5 million to cover losses related to damaged school buses.[27] The board and the RSD agreed to split all other proceeds evenly and use them for school construction.

Investment Earnings. The School Board also receives annual earnings on funds that it manages on behalf of the entire system.

Legacy Cost Deductions. In 2010, the State Legislature authorized the School Board to deduct up to $6 million a year to pay Legacy Costs before distributing local tax revenues on a per-pupil basis.[28] (Legacy Costs are described in the sidebar on Common Expenses.)

Miscellaneous One-Time Money. The School Board occasionally receives small amounts of one-time money for its General Fund.

Nonpublic Federal Entitlement Funds. The School Board receives on behalf of nonpublic schools in Orleans Parish supplemental federal grants for specific groups of students, including students from lower-income families and students with special needs. These grants follow the qualifying students. It also receives federal grants for professional development at nonpublic schools.

Overhead Reimbursement Funds Related to Nonpublic Schools. The School Board receives federal funding to cover overhead costs associated with the administration of federal grants that fund services to nonpublic schools in Orleans Parish.

Post-Katrina Operating Surplus. In the 2005-06 school year, the School Board generated an operating surplus of $65.3 million. A number of factors contributed to it. Most notably, schools were closed for most of the first half of the school year, and the School Board continued to receive state MFP funding based on the pre-Katrina enrollment for several months after the disaster.

State Revenue Sharing. Each year, the School Board receives revenue from the State Revenue Sharing Fund. That fund compensates local government bodies for some of the property tax revenues lost through the state's homestead exemption.

Surplus Property Proceeds. As the owner of all public school buildings in New Orleans, the School Board occasionally receives proceeds from the sale of surplus property. The School Board applies the proceeds to the purchase of land for Master Plan Projects.

State Textbook Funds. The School Board receives state funds for the purchase of textbooks for nonpublic schools in Orleans Parish.

Withdrawals from the Enterprise Fund. In 2011, the School Board purchased the building that houses its headquarters. Tenants occupy most of the building, generating rental income for the board. It manages the building's expenses and revenues through an enterprise fund. Because the School Board used Common Revenues to purchase the building, BGR is treating income from it as a Common Resource. The School Board had not withdrawn any income from the building fund through the end of fiscal 2012.

all public school buildings in New Orleans, and together with the RSD is responsible for planning and construction in accordance with the School Facilities Master Plan for Orleans Parish. It is responsible for paying the public schools' debt service and legacy costs inherited from the pre-Katrina, unified school district and its break-up. In discharging its responsibilities as the resource manager, the School Board incurs operating costs. In this report, BGR refers to these obligations and costs as "Common Expenses." For a more detailed description of Common Expenses, see the sidebar.

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Overview of Common Resources

Between fiscal 2006 and fiscal 2012, the School Board received $755.3 million in Common Resources. Approximately 52% of that total consisted of non-recurring resources, such as Community Disaster Loans and the Post-Katrina Operating Surplus. The other 48% came from recurring resources, mostly for debt service. Table 1 provides a breakdown of resources by type and year.

The School Board placed $563 million of the Common Resources into accounts designated for debt service, capital projects and services to nonpublic schools in Orleans Parish.[30] In most cases, legal or contractual requirements dictated the use of the funds. As noted in the sidebar, expenditures for debt service and capital projects included in the School Facilities Master Plan qualify as Common Expenses. Almost all of the capital expenditures since

WHAT ARE COMMON EXPENSES?

As noted above, the School Board is responsible for certain obligations incurred on behalf of all public schools in New Orleans. It also incurs operating costs in discharging its systemwide responsibilities. These Common Expenses include:

Capital Repairs. The School Board is responsible for capital repairs to all school buildings it owns, regardless of the type of school that occupies them.

Central Office Costs. The School Board incurs costs while performing certain administrative functions for the system as a whole. Examples of these common functions include collecting and distributing local taxes, maintaining certification and employment records for all employees, and managing idle property.

Debt Service. The School Board is responsible for debt service on bonds that it issues for capital projects. In addition, it is responsible for paying off pre-Katrina lease and minor debt obligations,[29] as well as post-Katrina borrowings through the Community Disaster Loan and Gulf Opportunity Zone Bond programs.

Master Plan Projects. The School Board owns all public school buildings in Orleans Parish. Together with the RSD, it is responsible for planning and executing school construction projects in accordance with the School Facilities Master Plan. BGR considers expenditures pursuant to that jointly developed plan to be Common Expenses.

Legacy Costs. Legacy Costs include certain outstanding obligations and continuing expenses incurred, or relating to events that occurred, pre-Katrina or as a result of the post-Katrina restructuring of the system. They include expenses for certain retiree health benefits, litigation expenses and workers' compensation claims.

Other Common Costs. The School Board also provides the only programs in Orleans Parish for incarcerated youth and delivers special and supplemental education services to students at nonpublic schools.

TABLE 1: COMMON RESOURCES BY YEAR
(Figures in $ millions)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Recurring Common Resources:								
Debt Service Deductions	$39.9	$41.1	$38.7	$39.0	$30.0	$26.2	$28.8	$243.7
Nonpublic Federal Entitlement Funds	n/a	n/a	9.6	10.6	10.8	9.4	8.2	48.6
Investment Earnings	1.5	5.9	8.7	3.3	1.5	1.0	0.5	22.4
Legacy Cost Deductions	-	-	-	-	6.0	6.0	5.2	17.2
State Revenue Sharing	3.2	2.4	2.6	1.2	1.6	2.8	2.3	16.1
Overhead Reimbursement Funds Related to Nonpublic Schools	-	-	0.8	0.9	1.2	0.9	1.2	5.0
Harrah's Casino Proceeds	-	2.1	-	1.5	-	-	0.8	4.4
Funds for Special Programs	n/a	n/a	n/a	0.9	1.0	1.0	1.2	4.1
State Textbook Funds	n/a	-	-	0.4	0.4	0.5	0.5	1.8
Subtotal	**44.6**	**51.5**	**60.4**	**57.8**	**52.5**	**47.8**	**48.7**	**363.3**
Non-Recurring Common Resources:								
Bonds to Finance Capital Projects*	-	-	-	-	-	0.6	78.2	78.8
Gulf Opportunity Zone Bonds	-	33.4	28.2	14.5	-	-	-	76.1
Post-Katrina Operating Surplus	65.3	-	-	-	-	-	-	65.3
FEMA Settlement Funds	17.7	6.4	2.9	7.3	8.8	5.8	11.8	60.7
Community Disaster Loans	25.0	34.5	-	-	-	-	-	59.5
Insurance Proceeds	5.0	-	-	-	18.0	-	11.9	34.9
Surplus Property Proceeds	0.7	0.3	-	-	-	2.3	5.4	8.7
Community Development Block Grants	-	-	-	-	3.0	3.7	1.0	7.7
Miscellaneous One-Time Money	-	0.2	-	-	-	0.1	-	0.3
Withdrawals from the Enterprise Fund	-	-	-	-	-	-	-	-
Subtotal	**113.7**	**74.8**	**31.1**	**21.8**	**29.8**	**12.5**	**108.3**	**392.0**
Total Common Resources	**158.3**	**126.3**	**91.5**	**79.6**	**82.3**	**60.3**	**157.0**	**755.3**

n/a = Not available

* The School Board transferred approximately $640,000 of pre-Katrina bond proceeds to the General Fund in 2010-11.

Sources: The School Board provided data on the Post-Katrina Operating Surplus and Surplus Property Proceeds, and BGR estimated the 2006 FEMA Settlement Funds, Funds for Special Programs, Harrah's Casino Proceeds, Nonpublic Federal Entitlement Funds and State Textbook Funds based on information in the School Board's Comprehensive Annual Financial Reports (CAFRs), budgets and other financial reports. All other numbers came directly from the CAFRs.

Katrina fall into that category.

The School Board deposited another $192.3 million of Common Resources into the School Board's General Fund. To determine whether the School Board has been using those Common Resources to meet Common Expenses, BGR reviewed expenditures from the General Fund Balance since Katrina. It also reviewed General Fund expenditures for direct-run schools in fiscal 2011. This was the most recent year available when BGR performed its analysis.

How the School Board Spent the General Fund Balance

The School Board ended the 2004-05 school year with a deficit in the General Fund Balance of approximately $2 million. Over the next two years, the General Fund Balance grew dramatically, rising to $139 million by the end of the 2006-07 school year. Since then, it has declined significantly. At the end of the 2011-12 school year, the balance stood at $46.4 million, approximately one-third of its level five years earlier. For more detailed information on

TABLE 2: SOURCES AND USES OF THE GENERAL FUND BALANCE, BY YEAR

Fiscal Year Ended June 30	Beginning Fund Balance (in $ millions)	Sources	Uses	Net Change During Year (in $ millions)
2006	($2.0)	• $25 million in Community Disaster Loans • $65.3 million operating surplus • $1.4 million excess insurance proceeds • $0.4 million in prior period adjustments	• $25.7 million to a debt service fund for the eventual retirement of certain pre-Katrina bonds	$66.4
2007	$64.4	• $34.5 million in Community Disaster Loans • $34.4 million operating surplus • $5.6 million in prior period adjustments	• None	$74.5
2008	$138.9	• $2.4 million operating surplus	• $39.3 million for capital projects • $21 million to RSD as a result of recalculation of RSD's local share • $7 million payment for the United Teachers of New Orleans settlement	-$65.0
2009	$73.9	• None	• $5.9 million to RSD as a result of recalculation of RSD's local share • $6.2 million additional payment to charters to comply with MFP formula • $7.7 million legacy costs payment	-$19.7
2010	$54.2	• None	• $3.9 million to RSD as a result of recalculation of RSD's local share • $0.3 million operating loss	-$4.2
2011	$50.0	• $0.9 million operating surplus	• $6.3 million to purchase School Board's headquarters	-$5.4
2012	$44.6	• $1.8 million operating surplus	• None	$1.8

Sources: Orleans Parish School Board's 2006-2012 CAFRs and summaries of changes in the General Fund Balance provided by the School Board. Totals may not add due to rounding.

the changes, see Table 2.

Two funding sources, Community Disaster Loans and the Post-Katrina Operating Surplus, contributed significantly to the growth in the General Fund Balance between fiscal 2006 and fiscal 2008. Together, these sources added $125 million.

Approximately $27.2 million of the growth and decline in the fund balance was attributable to timing differences in the receipt and disbursement of local taxes that the School Board owed the RSD. In essence, $27.2 million of local tax revenue passed through the General Fund Balance en route to the RSD. However, the School Board dipped into the General Fund Balance to cover another $3.6 million local tax obligation to the RSD. In that case, the corresponding tax revenue never made it to the fund balance, indicating that the School Board spent those revenues for other purposes. The School Board contends that $1.4 million of that amount represented a state-mandated disproportionate allocation of local revenue to the RSD. It had no explanation for the remaining $2.2 million. In essence, the School Board consumed Common Resources in the fund balance to cover an obligation for which local taxes should have been set aside.[31]

In fiscal 2009, the School Board withdrew another $6.2 million to help cover a portion of the local taxes it was required to distribute to charter schools that year. At that time, state law required the School Board to remit a pro-rata share of estimated, as opposed to collected, local taxes. In 2009, collections fell short of the estimate by a significant amount, creating an obligation to the charter schools that the School Board could not meet from its tax collections. The law was subsequently amended to prevent a recurrence of the situation.

Most of the remaining expenditures from the General Fund Balance were for Common Expenses. The School Board used $25.7 million to help pay off certain pre-Katrina bonds;[32] $39.3 million to fund Master Plan Projects;[33] and $15 million to meet Legacy Costs.[34]

It also spent $6.3 million to purchase the School Board's headquarters. Whether any part of that expenditure should be considered a Common Expense is open to debate.[35] On the one hand, the School Board needs a place to conduct its activities, some of which serve the system as a whole. On the other hand, the School Board also uses a substantial portion of the space to serve its own charters and direct-run schools.

General Fund Expenditures

Some of the Common Resources that entered the General Fund never reached the General Fund Balance. They were used to meet operating expenses during the course of the

ALLOCATING CENTRAL OFFICE EXPENSES

The School Board's Central Office provides a wide range of services. Some support its direct-run schools only, while others relate to its charter schools. In addition, the School Board performs some services on behalf of both its charter and direct-run schools, and other services on behalf of all public schools in Orleans Parish.

The School Board's financial system does not track central office costs according to the beneficiary of the service. In order to allocate costs on that basis, BGR obtained School Board estimates for 2011 and refined them through interviews with School Board staff and additional data gathered from School Board budgets and financial reports. It also adjusted the numbers by eliminating Legacy Costs and expenses for services that the School Board provided to charter schools on a fee-for-service basis.

In 2011, the School Board spent approximately $11.5 million on the adjusted central office expenses.[41] Of those costs, $3.2 million related to the system as a whole. The remainder related solely to the School Board's direct-run schools, solely to the School Board's charter schools or to expenses incurred on behalf of both direct-run and charter schools. The following table provides the allocation.

TABLE 3: BGR ESTIMATED BREAKDOWN OF CENTRAL OFFICE EXPENSES, 2011

	Expenses Attributable to:				
Central Office Department	**Charters** (Excluding Fee-for-Service)	**Direct-Run Schools**	**Charters and Direct-Run Schools Collectively**	**System as a Whole** (Excluding Legacy)	**Total Expense**
Audio Visual	$11,700	$114,000	$4,800	$15,000	$145,500
Board Office	46,000	162,500	18,900	58,900	286,300
Central Office (Rent)	88,300	312,000	36,200	113,000	549,500
Curriculum	124,000	193,500	381,100	7,900	706,500
Exceptional Children Services	-	-	455,000	876,400	1,331,400
Facility	200,000	153,400	-	40,000	393,400
Finance	315,800	1,101,000	-	461,500	1,878,300
Human Resources	50,000	432,300	-	17,700	500,000
Information Technology	22,500	917,100	-	287,600	1,227,200
Insurance (1)	1,556,000	767,000	-	800,500	3,123,500
Legal	58,000	72,000	-	389,800	519,800
Security	-	221,900	-	75,000	296,900
Superintendent's Office (2)	308,700	192,100	-	38,400	539,200
Total	**$2,781,000**	**$4,638,800**	**$896,000**	**$3,181,700**	**$11,497,500**

(1) In 2011, the School Board received no reimbursement from charter schools for the cost of property insurance it carried on their behalf. Subsequently, the School Board revised the charter operating agreements to require the charter schools to reimburse the School Board for this cost.
(2) The charter-related expenses for the Superintendent's Office included a $150,000 fee paid to the National Association of Charter School Authorizers.

Source: BGR calculations based on estimates and financial data provided by the School Board. Figures are rounded to the nearest hundred dollars.

REVENUE SOURCES FOR DIRECT-RUN SCHOOLS

Revenue sources for direct-run schools include the following:

Local Tax Revenue. The School Board receives all local property and sales taxes levied for public schools in New Orleans. In 2011, these averaged $5,067 per student.[38] By law, the School Board must pass the per-pupil amount, net of deductions for certain Common Expenses, to its charter schools and to the RSD for its direct-run and charter schools. The net amount equaled $4,109. BGR attributed to each of the direct-run schools its pro-rata share of the net local tax revenues.

MFP Revenue. The primary source of state funding for public education is the state's Minimum Foundation Program. That program provides annual funding on a per-pupil basis. In 2011, it averaged $3,810 per pupil.[39] The School Board received the per-pupil amount for students in its direct-run and charter schools and, as required by state law, passed through a pro-rata share to charter operators. BGR attributed to each of the direct-run schools their pro-rata share of MFP revenue.

LA 4 Grant Revenue. The School Board receives on behalf of its direct-run and charter schools state and federal funding for preschool classes for students from lower-income families. The funds, which come through the Cecil J. Picard LA 4 program, averaged $3,945 per pupil in 2011.[40]

Donations. The School Board also receives and passes on donations to its direct-run schools.

Mahalia Jackson Rental Income. The School Board receives and passes on to Mahalia Jackson Elementary School rental income from tenants located in the school complex.

Federal Entitlement Funds. The School Board receives on behalf of its charter and direct-run schools supplemental federal grants for specific groups of students, including students from lower-income families, students with English language proficiency problems, and students with special needs. These grants follow the qualifying students. Direct-run schools also receive a portion of federal grants for professional development.

Overhead Reimbursement Funds Allocation. The School Board receives federal funding to cover the overhead costs associated with federal grants administered by the School Board on behalf of both its charter and direct-run schools. It also receives Medicaid reimbursements of administrative costs associated with school-based health services in its charter and direct-run schools. For the purposes of this report, BGR applied those funds first to offset central office costs associated with both direct-run and charter schools. It allocated the remainder to the School Board's charter and direct-run schools on a per-pupil basis.

Other Federal Grants. The School Board also receives funding for specific services and programs, such as food services and the Reserve Officers' Training Corps (ROTC), that it provides for its direct-run and charter schools.

year or transferred to other accounts.

To determine whether the School Board spent those Common Resources for Common Expenses, BGR would have to deconstruct the board's financial records for all post-Katrina years. BGR did not undertake that analysis because, as noted previously, it would have been impractical and of limited utility. Instead, it limited its analysis to General Fund revenues, expenditures and transfers in fiscal 2011, the most recent year for which financial statements were available when BGR conducted the research for this report.

BGR compared Common Resources received in fiscal 2011 against Common Expenses incurred that year. It also analyzed whether the School Board spent disproportionately on its direct-run and charter schools that year.

What do we mean by disproportionate spending? State law allocates the two main sources of local and state funding – Local Tax Revenue and State MFP Revenue – among all school operators in Orleans Parish on a per-pupil basis.[36] This creates a rough parity in the funding arena. In addition, all schools are eligible to tap into certain other revenue sources, such as Federal Entitlement Funds, and to raise funds through other means, such as donations. The School Board alone, however, has access to the Common Resources that it receives as the resource manager. In some cases, it has wide latitude as to the use of these funds and could, if it so chose, spend a disproportionate amount on its direct-run and charter schools.

Common Resources versus Common Expenses. In fiscal 2011, the School Board received Common Resources totaling $60.3 million. It used $26.2 million for Debt Service, $11.8 million for Master Plan Projects and $9.4 million for services to nonpublic schools in Orleans Parish. It deposited the balance, nearly $13 million, into the General Fund, where it was available to meet Common Expenses. Common Expenses that year totaled $9.7 million, leaving $3.1 million for other purposes. The School Board had the flexibility to direct that revenue to any number of purposes, including its direct-run and charter schools.

Spending on Direct-Run Schools. To determine whether the School Board spent disproportionately on its direct-run schools, BGR compared the operating expenses for those schools against the revenue that the School Board received for them. In calculating expenses, BGR included school-based costs, such as compensation for teachers and student transportation expenses. It also included central office costs related solely to the School Board's six direct-run schools. For a discussion of central office costs, see the sidebar on p. 11, Allocating Central Office Expenses.

TABLE 4: REVENUES AND EXPENSES ATTRIBUTABLE TO DIRECT-RUN SCHOOLS, FISCAL 2011

	Bethune Elementary	McMain High	McDonogh 35 High	Ben Franklin Elementary	Former Priestley Charter	Mahalia Jackson Elementary	Total
K-12 Pupils (as of Feb. 1, 2011)	334	646	933	576	247	45	2,781
Preschool Pupils (as of Feb. 1, 2011)	37	0	0	57	0	31	125
Total Pupils	371	646	933	633	247	76	2,906
Resources Attributable to the Schools - $							
Local Tax Revenue	$1,456,124	$2,816,336	$4,067,556	$2,511,160	$448,681	$196,184	$11,496,041
State MFP Revenue	1,329,394	2,571,224	3,713,547	2,292,608	409,631	179,110	10,495,515
Overhead Reimbursement Funds Allocation	37,657	72,834	105,192	64,942	11,603	5,074	297,302
LA 4 Grant Revenue	201,531	0	0	75,736	0	90,775	368,042
Rental Income	0	0	0	0	0	233,829	233,829
Donations	15,049	29,106	42,038	25,952	4,637	2,028	118,810
Total Resources Attributable to Each School	3,039,755	5,489,500	7,928,333	4,970,398	874,553	707,000	23,009,538
Expenses Attributable to the Schools - $							
School-Based Costs	2,903,721	5,208,570	5,383,550	4,186,970	785,488	1,209,745	19,678,044
Central Office Costs	581,008	1,123,745	1,622,994	1,001,977	169,267	78,279	4,577,270
Total Expenses Attributable to Each School	3,484,729	6,332,315	7,006,544	5,188,947	954,755	1,288,024	24,255,314
Excess (Deficit) - $	**(444,974)**	**(842,815)**	**921,789**	**(218,549)**	**(80,202)**	**(581,025)**	**(1,245,776)**
Per-Pupil Resources	**$8,193**	**$8,498**	**$8,498**	**$7,852**	**$8,498**	**$9,303**	**$8,331**
Per-Pupil Expenditures	**$9,393**	**$9,802**	**$7,510**	**$8,197**	**$9,277**	**$16,948**	**$8,782**

Notes: BGR allocated State MFP Revenue, Local Tax Revenue, Donations, Overhead Reimbursement Funds Allocation and Central Office Costs on a per-pupil basis. It estimated expenses for the former Priestley School for Architecture and Construction. All other revenues and expenses are actual amounts for each school. BGR did not include Federal Entitlement Funds, Other Federal Grants or the related expenses, since they offset each other on a dollar-for-dollar basis. Totals may not add due to rounding.

The School Board took over the former Priestley charter school at the end of January 2011, operating it as a direct-run school for the remaining five months of that fiscal year. BGR estimated the annual revenues and expenses for that school for those five months.

Sources: Louisiana Department of Education, Multi-Stat Report, February 2011; Orleans Parish School Board, 2011 CAFR, 2010-11 school-based operating costs, estimates of central office costs, and various other financial data provided to BGR.

In calculating revenue, BGR included the School Board's pro-rata share of MFP Revenue and Local Tax Revenue, as well as LA 4 Grant Revenue, donations and rental income for Mahalia Jackson Elementary School. BGR did not include Federal Entitlement Funds, Other Federal Grants or the related expenses,[37] since they offset each other on a dollar-for-dollar basis. For more information, see the sidebar entitled Revenue Sources for Direct-Run Schools.

Expenditures on direct-run schools totaled $24.3 million. The revenues attributable to those schools totaled only $23 million, leaving a gap of more than $1.2 million.

Table 4 gives a breakdown of revenues and expenses for each of the School Board's six direct-run schools.

As the table indicates, the School Board spends various amounts per pupil at the six schools. This is permissible, since the School Board is not required to pass on Local Tax Revenue and MFP Revenue on a per-pupil basis to its schools.

The School Board spent $922,000 less on McDonogh 35 High School than it received for that school. At all the other direct-run schools, expenses exceeded the attributable revenues. The largest shortfall, $843,000, occurred at McMain High School.

As a percentage of attributable revenues, the largest overspending occurred at Mahalia Jackson Elementary School. The expenses at that school, which in 2011 served only kindergarten and pre-K students, were almost twice the revenue attributable to it – $1.3 million versus $707,000. The per-pupil cost, excluding federal entitlement funds, was $16,948. The comparable cost for the School Board's other direct-run schools ranged from $7,510 to $9,802.

Mahalia Jackson Elementary School is based on a community model that incorporates a range of ancillary services, such as a health clinic, library and computer lab, into a school facility. The School Board entered into an ill-fated and short-lived partnership with a local foundation to open and operate the multi-function facility. It expected to defray the operating costs for the building with rent from the other service providers. However, disagreements arose between some tenants and the School Board over the amount due, and the School Board collected only two-thirds of the budgeted revenue in 2011.[42]

Even if the School Board had received all the rent it anticipated, the school would still have operated at a deficit of approximately $465,000, or $6,125 per pupil. In an effort to generate additional revenue for the school, the School Board plans to expand enrollment. To allow this, it is converting existing office spaces to classroom space.

To close the $1.2 million funding gap for its direct-run schools, the School Board had to draw on Common Resources. This was not appropriate. As stated at the outset of this report, BGR takes the position that the School Board should use Common Resources to meet Common Expenses.

Charter/Direct-Run Resources vs. Expenses. The School Board received funding to cover costs associated with various programs that it administers on behalf of its charter and direct-run schools (Charter/Direct-Run Resources). BGR takes the position that the School Board should apply Charter/Direct-Run Resources to meet eligible expenses incurred on behalf of charter and direct-run schools collectively. Any remaining funds should be placed in a reserve fund to meet their common needs or proportionately allocated among both types of schools.

In 2011, Charter/Direct-Run Resources totaled $2.7 million. Approximately $2.2 million of that revenue came in the form of Medicaid reimbursements and federal funds to cover overhead costs associated with administering grant funds on behalf of its direct-run and charter schools (Overhead Reimbursement Funds). The balance came from teacher-training funds.

The related expenses for joint charter/direct-run programs totaled $1.6 million. This left the School Board with $1.1 million for other uses. For the purposes of its financial analysis, BGR allocated the remaining revenue on a per-pupil basis among the direct-run and charter schools. The allocation for direct-run schools totaled $297,000, and the allocation for charter schools totaled more than $842,000. BGR applied that amount against the insurance expense discussed in the next section.

Charter School Expenditures. The direct-run schools were not the only ones for which expenses exceeded allocated revenues. In 2011, the School Board spent $3.1 million on overhead costs related to its charter schools and had available only $2.3 million to cover the expenses. This left a gap of $845,000, which the School Board covered with Common Resources.

Approximately $1.6 million of the expenses related to property insurance on buildings occupied by charter schools. In 2011, those schools were not required to reimburse the School Board for the cost of property insurance on the buildings they occupy. The issue was subsequently addressed by revising the charter operating agreements to require reimbursement. If those agreements had been in place in 2011, the School Board's charter-related revenues would have exceeded expenses by $711,000.

The largest source of charter-related revenue ($920,000) was administrative fees paid by the charter schools. State law authorizes the School Board to collect an administrative fee equal to 2% of the schools' share of MFP Revenue and Local Tax Revenue. The fee is assessed to enable the School Board to meet various expenses it incurs in overseeing charter schools; it is capped to encourage efficiency. In 2011, one charter operator was not required to pay the fee. (Beginning in 2012, that exception was eliminated.)

Table 5 summarizes BGR's analysis of 2011 resources and expenditures by beneficiary.

As the chart indicates, 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 doing so, it used Common Resources that should have been available for the needs of the system as a whole.

Summary of School Board Expenditures and Recommendations

BGR's analysis of School Board finances shows that, for the specific periods reviewed, the board spent the vast majority of Common Resources for Common Expenses.

TABLE 5: GENERAL FUND RESOURCES AND EXPENSES, FISCAL 2011

General Fund Resource		General Fund Expense		Excess (Deficit)
Common Resources		**Common Expenses**		
Legacy Cost Deductions (1)	$6,000,000	Legacy Costs (current year)	$5,406,948	
State Revenue Sharing	2,777,950	Central Office Costs for System as a Whole (excluding Legacy Costs)	3,043,784	
Investment Earnings	967,055	Costs of Two Direct-Run Programs:		
Overhead Reimbursement Funds Related to Nonpublic Schools	935,564	School-Based Costs	692,689	
		Share of Central Office Costs	137,940	
Transfers from OPSB Capital Fund	640,227			
Revenue for Two Direct-Run Programs:		Textbooks for Nonpublic Schools	450,000	
Local Tax Revenue	497,000			
State MFP Revenue	453,745			
State Textbook Funds	450,000			
Miscellaneous One-Time Revenue	69,507			
	12,791,049		**9,731,361**	**3,059,688**
Charter/Direct-Run Resources		**Charter/Direct-Run Expenses**		
Overhead Reimbursement Funds for Charters and Direct-Run Schools	1,132,308	Central Office Costs on Behalf of Both Charters and Direct-Run Schools	1,132,308	
State PIP Funds	493,904	Expenditures of PIP Funds	493,904	
	1,626,212		**1,626,212**	**0**
Charter-Related Resources		**Charter-Related Expenses**		
2% Administrative Fee	919,911	Charter-Related Central Office Costs	1,050,383	
Overhead Reimbursement Funds Allocation	841,547	IT Services Provided by OPSB	490,149	
Fees for IT Services Provided by OPSB	490,149	Property Insurance Cost Attributed to Charters	1,556,000	
Reimbursement for Property Insurance	0			
	2,251,607		**3,096,532**	**(844,925)**
Resources Attributable to Direct-Run Schools		**Expenses Related to Direct-Run Schools**		
Local Tax Revenue	11,496,041	School-Based Costs	19,420,887	
State MFP Revenue	10,495,515	Central Office Costs for Direct-Run Schools	4,577,270	
Overhead Reimbursement Funds Allocation	297,302			
Rental Income from Mahalia Jackson	233,829			
Donations	118,810			
Federal ROTC Funds	110,885			
	22,752,381		**23,998,157**	**(1,245,776)**
Total General Fund Resources	**$39,421,249**	**Total General Fund Expenses**	**$38,452,262**	**$968,987**

(1) In 2011, the School Board incurred only $5.4 million in Legacy Costs. However, it was allowed to receive the maximum $6 million Legacy Cost Deduction to offset excess expenses carried forward from the prior year.

Sources: All figures come from the School Board's 2011 CAFR or financial analysis set forth in other parts of this report. Due to data limitations, BGR could not determine the specific expenses reimbursed by Medicaid. Therefore, it included the entire amount of Medicaid reimbursable expenses in Charter/Direct-Run Expenses and offset the Central Office costs for charters and direct-run schools by proportionate amounts.

AN INEQUITY IN THE DISTRIBUTION OF MFP REVENUE

The state MFP formula provides school districts with a base level of funding for all students and supplemental funding for specific types of students, such as lower-income, gifted and special education students. The weighting boosts the MFP per-pupil funding.

In a traditional school district, the school board can direct the supplemental funding for the qualifying students to the schools they attend. This is not the case with the School Board. By law, it is required to distribute no less than the MFP per-pupil funding to its charters. As a result, the supplemental funds are allocated on a pro-rata basis, regardless of the number of qualifying students at each school.[43] Because the students who qualify for the funding are not evenly distributed throughout the schools, some schools receive more than their fair share of MFP revenue and others receive less.

For the 2012-13 school year, the MFP formula provides funding for special education students at 150% of the base level funding. Special education students constitute 7% of all students in the School Board's direct-run and charter schools.[44] They account for 10% of students at direct-run schools and 5.5% of students at charter schools. Had the supplemental funding for special education students followed those students, the resources attributable to the direct-run schools as a group would have been larger. Those distributed to charter schools as a group would have been less.

Between fiscal 2006 and fiscal 2012, the School Board received Common Resources totaling $755.3 million. It spent or set aside $563 million for three Common Expenses: debt service, capital projects and services to nonpublic school students in Orleans Parish. In the vast majority of cases, the expenditures for these purposes were mandated by legal or contractual requirements.

The School Board placed the rest of the Common Resources, totaling $192.3 million, into the General Fund. Approximately two-thirds of those funds made their way to the General Fund Balance. The School Board dipped into Common Resources to cover $3.6 million of local tax obligations for which revenue should have been set aside. While the School Board contends that $1.4 million of that amount represented a state-mandated disproportionate allocation of local revenue to the RSD, it had no explanation for the remaining $2.2 million. It also used $6.2 million to meet a state-mandated obligation to charter schools. With the arguable exception of the School Board's headquarters, the board's other expenditures from the fund balance were for Common Expenses.

Roughly $65 million of the Common Resources that entered the General Fund never reached the General Fund Balance. They were expended in the course of the year in which they were received. For the reasons noted above, BGR was unable to conduct the multi-year analysis needed to determine whether those resources were used for Common Expenses. Instead, it limited its analysis to fiscal 2011, the most recent year for which financial statements were available during the research phase of this study. While the analysis provides a snapshot of relatively recent practices, it does not provide insight into the School Board's spending practices in prior years.

BGR's analysis of 2011 General Fund resources and expenses for direct-run schools indicates that the School Board overspent on those schools by approximately $1.2 million. To cover the gap, it spent revenues that should have been used for the needs of the system as a whole. Similarly, the School Board overspent on its charter schools by $845,000. As noted above, the shortfall resulted from the fact that those schools were not required to reimburse the School Board for insurance expenses related to their buildings. The problem was subsequently addressed through amendments to the School Board's charter operating agreements. Had the current agreements been in effect in 2011, the School Board's charter-related revenues would have exceeded expenses by $711,000.

The School Board's overspending on its direct-run and charter schools in 2011 totaled $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.

BGR's review also uncovered a number of weaknesses in the School Board's financial management. The School Board has no policy on the use of the General Fund Balance, Common Resources or Charter/Direct-Run Resources. It can, if it so chooses, spend the remaining $46.4 million 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. It would be difficult for the public to tell whether these things are happening, since the School Board does not track or report expenditures by types of schools.

It is critical that the School Board adopt policies to ensure good stewardship in the future. Those policies should define appropriate uses of the General Fund Balance and impose appropriate limits on the use of Common Resources and Charter/Direct-Run Resources. In addition, the School Board should adopt budgeting, record-keeping and reporting practices that enable the public to ascertain whether the School Board is following those policies.

General Fund Balance. The growth in the General Fund Balance after Katrina was due to extraordinary infusions of disaster-related cash. Future contributions from operations are likely to be small. For that reason, it is very important that the remaining balance be used carefully.

Currently, $44.1 million of the General Fund Balance is available for any purpose.[45] The School Board's policy on the General Fund Balance indicates that it should be maintained at a level adequate to protect against emergencies and other unanticipated needs that could affect its ability to serve public school students.[46] It sets minimum levels for reserves but does not limit expenditures.

The School Board should adopt a policy to govern the use of the General Fund Balance. As shown in Table 2, almost all of the current balance is attributable to Common Resources received since Katrina. Because of this, the policy should preserve the current General Fund Balance to meet Common Expenses. It should allocate future additions to the fund balance to reserve accounts for Common Expenses, Charter/Direct-Run Expenses, expenses related to charter schools or expenses related to direct-run schools, depending on the types of resources comprising the addition.

Furthermore, the policy should restrict the use of the reserve account for Common Expenses to extraordinary expenses, such as those resulting from natural disasters or other emergencies. The School Board should not use the reserves to support recurring operating costs. Nor should it use reserves to fund non-emergency capital expenditures, as it has in the past. Rather, these should be funded from the separate capital sources the School Board receives for the implementation of the School Facilities Master Plan.

Future Common Resources. The School Board should use future Common Resources to meet Common Expenses. To the extent that Common Resources exceed Common Expenses, the excess should be applied in ways that benefit all students in Orleans Parish. Examples include the maintenance of an appropriately sized fund balance, the allocation of funds for high-priority needs (e.g., supplemental funding for students with special needs) on a systemwide basis, or the distribution of excess funds on a per-pupil basis. The excess should not be appropriated by the School Board for the exclusive or disproportionate use of its direct-run or charter schools.

Future Charter/Direct-Run Resources. The School Board should use future Charter/Direct-Run Resources to meet eligible expenses incurred on behalf of charter and direct-run schools collectively. Any remaining funds should be proportionately allocated among both types of schools or placed in reserve to meet future common needs. Examples of appropriate uses include capital repairs of the schools occupied by the School Board's charter and direct-run schools and transition costs relating to the closure or transfer of schools.

Record-Keeping and Reporting. The School Board should improve its budgeting, record-keeping and reporting of revenues, expenditures and changes in fund balances associated with the four categories of beneficiaries discussed in this report – the system as a whole, charter and direct-run schools collectively, charter schools, and direct-run schools. This will require the development of a method of identifying and allocating General Fund revenues and expenditures relevant to each category. It will also require a review of the School Board's accounting system for changes necessary to clearly track the revenues, expenditures and changes in fund balance.

The School Board's administration should strive for transparency in its reporting on its resource management. It should provide a regular, written report to the board itself, the RSD, charter schools and the general public.

DECISION-MAKING PROCESSES

The School Board is the sole taxing and bonding authority for all public schools in New Orleans. Without consulting the RSD or charter schools, it can decide whether to roll the existing tax rate forward following an automatic rollback. It also decides whether to ask voters to levy taxes for the school system and for what purposes. Without discussing the matter with the RSD and other school operators, it can also decide to incur debt to finance school facilities. The School Board also owns all public school buildings in New Orleans, and is responsible for capital repairs on the buildings occupied by its direct-run and charter schools.

Decisions in these areas affect the financial position of all schools. If the School Board elects not to roll taxes forward, schools lose access to a potential source of additional revenue.[47] If it incurs additional debt, the costs are normally passed on to all public schools. This affects the revenue available to schools.

The potential for differences of opinion on these subjects is real. For example, the School Board's decision not to roll the tax rate forward in 2011 distressed both the RSD and some charter school officials, who claimed that they had not been consulted or given information on how the decisions would affect their schools. (The School Board, perhaps in reaction to these concerns, did roll forward the tax rate in 2012. The millage roll-forward is expected to generate about $4.8 million in 2013. This is approximately $110 per public school student.)[48]

Despite the fact that the School Board's decisions can have significant ramifications for all public schools, the board does not have a formal or informal process for consulting other school operators. It should. A substantial number of the charter school officials contacted by BGR indicated that the School Board does not communicate with them adequately on systemwide issues. They also expressed concern that the School Board does not give their schools' needs sufficient consideration when making decisions that affect them.

There are a number of steps that the School Board could take now to expand the role of other school operators in the board's decision-making process. They range from improving communication on systemwide issues to holding straw votes by school operators on such issues.

Advance Notice. Despite their direct interest in taxes, debt and other systemwide issues, the RSD and other school operators are treated as members of the public when it comes to notice. They are entitled only to the general notice required by the open meetings and other laws. Often, the School Board gives notice only a few days before a meeting, making it difficult for the RSD and charter school operators to evaluate and weigh in on the issue.

The School Board could provide the RSD and charter school operators with advance notice of matters with systemwide implications. The notice would describe the proposed action and explain how it would affect all schools. It would supplement the School Board's normal public notices of its meetings.

Providing earlier, more detailed notice would increase charter schools' and RSD officials' awareness of issues, and give them more time for consideration. It would also allow each interested party to voice its concerns to the School Board in advance of the public vote.

Special Presentations. In addition to providing earlier and more detailed notice, the School Board could hold informal meetings for interested school leaders on issues that affect the system as a whole. The meetings would be led by the Superintendent or his designee, who would provide information and gather feedback from those in attendance. The School Board should respond in writing to all pertinent comments and questions it receives at those meetings.

Create an Advisory Committee. The School Board could establish an advisory committee consisting of representatives of the RSD and charter schools to vet upcoming tax, debt and other systemwide issues and make recommendations to the School Board. Options for charter school representation include the Louisiana Charter School Association, which represents the needs and interests of charter schools statewide, formal local groups representing charter schools, such as the Eastbank Collaborative of Charter Schools, or representatives elected by charter school operators.

A formal advisory committee would provide a forum for hearing the concerns of the larger education community. However, it would create another step in the decision-making process, potentially hampering time-sensitive actions. In addition, the advisory committee may not necessarily represent all interested parties. This could empower some schools over others.

Hold Straw Votes. Some will object to an advisory group because the interests of the charters vary, and the voice of the smaller-scale operators will be lost in such arrangements. The objection could be met by allowing all charter school operators, along with the RSD, to vote directly on matters that affect the system as a whole. While the votes would be nonbinding, they would let the public and the School Board know where those directly affected by School Board decisions stand on the issues.

On the other hand, a straw vote may not be an informed vote. Some voters may have a firm grasp of the issues, but others may vote based on a knee-jerk reaction to the question.

Each of the possibilities outlined above would to various degrees enhance communication within the existing framework. At a minimum, the School Board should provide timely notice of upcoming decisions and make special presentations to school operators. This would increase charter and RSD officials' awareness of upcoming decisions and offer them a greater opportunity to digest issues and provide feedback in advance.

While the need for notice and presentations is clear, it is not clear to BGR that an advisory committee or straw votes would add significant value. These options should be revisited if the other measures prove inadequate to bridge the communication gaps.

CONCLUSION AND RECOMMENDATIONS

The Orleans Parish School Board was conceived as the governing body and operator of a traditional American public school system. But today, the public school system in New Orleans is the most highly decentralized in the nation. Two districts operate in the city, and more than 80% of the schools are chartered. The School Board directly operates a mere handful of schools.

While the operation of schools is highly decentralized, the School Board remains the financial steward of the system as a whole. As such, it has a responsibility to use Common Resources to meet Common Expenses and apply any excess in ways that benefit all students. It should not appropriate the excess for the exclusive or disproportionate use of its direct-run or charter schools.

How well has it discharged its financial stewardship?

To begin with, the School Board is much stronger financially than it was prior to Hurricane Katrina. In fiscal 2005, the General Fund operated at a deficit and its liabilities exceeded its assets. Since then, the School Board has reduced its debt burden, increased its liquidity and grown its net assets.

Between fiscal 2006 and fiscal 2012, the School Board received Common Resources totaling $755.3 million. It expended or set aside $563 million of that amount for three Common Expenses: debt service, capital projects and services to nonpublic school students in Orleans Parish. In almost all cases, the expenditures for these purposes were mandated by legal or contractual requirements.

The School Board placed the rest of the Common Resources, totaling $192.3 million, into the General Fund. The board exercised discretion over the expenditure of these funds.

About two-thirds of the Common Resources that entered the General Fund made their way to the General Fund Balance. Thanks largely to an infusion of extraordinary resources, the General Fund Balance grew to $139 million by the end of the 2006-07 school year. However, by the end of the 2011-12 school year, it had fallen to $46.4 million.

Approximately $27.2 million of the growth and decline of the fund balance was attributable to timing differences in the receipt and disbursement of local taxes that the School Board owed the RSD. While the School Board contends that $1.4 million of that amount represented a state-mandated disproportionate allocation of local revenue to the RSD, it had no explanation for the remaining $2.2 million. The School Board dipped into the fund balance to cover the payment of another $3.6 million of local taxes owed the RSD. In essence, it used the tax revenues intended for the RSD for other purposes and consumed Common Resources to meet its pass-through obligation.

The School Board used $6.2 million from the General Fund Balance to meet a state-mandated obligation to charter schools. In this case, there was no offsetting revenue source to tap. With the arguable exception of a $6.3 million outlay for the School Board's headquarters, the board's other expenditures from the General Fund Balance were for Common Expenses.

Roughly $65 million of the Common Resources that entered the General Fund never reached the General Fund Balance. Rather, they were spent in the year in which they were received. To determine whether those resources were used for Common Expenses, BGR would have to deconstruct the School Board's financial records for all post-Katrina years. BGR did not undertake that analysis because, as noted previously, it was impractical and of limited utility. Instead, it limited its analysis to General Fund revenues, expenditures and transfers in fiscal 2011, the most recent year for which financial statements were available at the outset of this study.

BGR found that the School Board overspent on its direct-run schools by approximately $1.2 million in 2011. It also overspent on its charter schools by $845,000. The overspending on the latter was attributable to unreimbursed expenses incurred by the School Board for property insurance on buildings occupied by charter schools. Subsequently, the School Board changed its charter contracts to require reimbursement. Had the current contracts been in effect in 2011, the School Board's charter-related revenues would have exceeded expenses by $711,000.

The School Board's overspending on its direct-run and charter schools in 2011 totaled $2.1 million, or 5% of its General Fund resources. In overspending, the School Board used Common Resources that should have been available for the needs of the system as a whole.

BGR's findings are subject to a number of limitations. First, while the analysis of General Fund revenues for 2011 provides a snapshot of relatively recent practices, it does not provide insight into the School Board's use of Common Resources in prior years. BGR was unable to reach a conclusion as to the appropriateness of the School Board's General Fund expenditures in those years. Second, most allocations in BGR's analysis are based on estimates provided by the School Board and are only as good as those estimates. While BGR reviewed the estimates and made adjustments it deemed necessary, it did not verify the underlying data. Nor did it study the efficiency and effectiveness of the School Board's operations.

BGR found a number of serious weaknesses in the School

Board's financial management. First, the School Board does not budget, 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. The magnitude of the problem is underscored by the fact that it took BGR several months to analyze the financial results for 2011.

Second, the board has no policy on the use of Common Resources or Charter/Direct-Run Resources. Nor does it have a policy on the use of the General Fund Balance. It can, if it so chooses, spend Common Resources and a disproportionate amount of Charter/Direct-Run Resources on either its direct-run or its charter schools. It can also spend the remaining $46.4 million General Fund Balance disproportionately on its own schools. Because of the lack of transparency in the recordkeeping and reporting, it would be difficult for the public to tell whether these things are happening.

The School Board's decisions in the financial arena, whether they relate to taxes, debt or expenditures of discretionary revenues, affect all schools in the system. Yet the School Board has no formal or informal policy for consulting other school operators. It should create a system that provides school operators with the information they need to evaluate financial issues and gives them an opportunity to be heard.

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 expenditures that benefit all students in Orleans Parish.

- Adopt a formal policy requiring the School Board to use Charter/Direct-Run Resources for expenses it incurs on behalf of its charter and direct-run 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.

As BGR noted at the outset, this report focuses on steps that can be taken now, within the existing legal framework, to improve the School Board's performance as a resource manager for the system as a whole. However, many of the problems identified in the report stem from the fact that the current governance framework was not specifically designed for the type of system in place today. In the next report in this series, BGR will address the broader question of what is the most appropriate governance structure for New Orleans' unique system of public schools.

ENDNOTES

1 Prompted by the education crisis in New Orleans, Louisiana voters in 2003 approved a constitutional amendment that allowed the state to take over failing schools. The State Legislature established the RSD to provide for the management and operation of such schools. Prior to Katrina, a handful of New Orleans schools were transferred to the district and re-opened as charter schools. Of the 125 schools the School Board operated in 2005, 106 were transferred to the RSD after the disaster. Orleans Parish School Board, 2006 Comprehensive Annual Financial Report (CAFR), p. 17.

2 The School Board operates six schools, while the RSD operates 12. Thirty-one different charter operators manage RSD charters. Eleven organizations, including one that also operates a handful of RSD charters, manage School Board charters. Five independent organizations manage the five Type 2 charters. Louisiana Department of Education, Charter School List, 2012.

3 Prior to the 2008-09 school year, no Type 2 charter schools received local funding. From the 2008-09 to 2011-12 school years, state law directed the School Board to provide local funding only to Type 2 charters authorized by BESE after July 1, 2008. Beginning with the 2012-13 school year, state law now directs the School Board to distribute local revenue to all Type 2 charter schools.

4 Louisiana Legislative Auditor, Orleans Parish School Board Audit Report, March 24, 2004, p. 5.

5 Information provided by the FBI, February 20, 2013.

6 Ibid. See also FBI New Orleans Division, "Former Orleans Parish School Board President Sentenced to 18 Months in Federal Prison," press release, March 11, 2010.

7 Picard, Cecil J., State Superintendent of Education, letter to Dr. Cheryl E. Mills, President, Orleans Parish School Board, and Mr. Anthony Amato, Superintendent, Orleans Parish School Board, July 7, 2004. The state imposed "high-risk" status in accordance with federal regulations governing federal grants received by the state and passed through to the School Board as a subgrantee.

8 Postlethwaite & Netterville, Independent Auditors' Report, March 9, 2005, in Orleans Parish School Board, 2004 CAFR, p. xii.

9 Orleans Parish School Board, 2004 CAFR, p. xix.

10 Information provided by the School Board.

11 White, John, State Superintendent of Education, letter to Darryl Kilbert, Orleans Public Schools Superintendent, June 12, 2012.

12 Orleans Parish School Board, 2005 CAFR, p. 2.

13 Orleans Parish School Board, 2012 CAFR, pp. 14-15.

14 BGR calculations based on information contained in the School Board's 2005 and 2012 CAFRs.

15 *Eddy Oliver, et al., v. Orleans Parish School Board, et al., No 2005-12244, Civil District Court for the Parish of Orleans,* Judgment, June 20, 2012.

16 The School Board runs a school program at the Youth Study Center, the city's juvenile detention center, and the Alternative Learning Institute at Orleans Parish Prison.

17 See Orleans Parish School Board, Official Statement for $79,055,000 Revenue Bonds (Taxable QSCB), Series 2011B, December 15, 2011.

18 Information provided by the School Board.

19 Orleans Parish School Board, 2006 CAFR, p. 34.

20 Orleans Parish School Board, 2011 CAFR, p. 66.

21 Ibid., p. 62.

22 Although the School Board is the owner of all school buildings, the State Legislature transferred control of most buildings to the RSD as part of the post-Katrina restructuring of the school system.

23 Orleans Parish School Board, 2011 CAFR, p. 55.

24 Orleans Parish School Board, 2012 CAFR, p. 55.

25 Information provided by the School Board.

26 Orleans Parish School Board, 2012 CAFR, p. 64, and 2007 CAFR, p. xii.

27 The School Board used most of this money to pay off an outstanding obligation related to bus leases entered into prior to Hurricane Katrina. It retained the rest in its General Fund.

28 See La. R.S. 17:3995(A)(1)(b)(iii) for charters and La. R.S. 17:1990(C)(2)(a)(iii) for RSD. Costs in excess of the $6 million annual limit can be carried forward to the next fiscal year and be reimbursed.

29 The pre-Katrina lease and minor debt obligations consisted of several equipment leases and a borrowing from the U.S. Environmental Protection Agency. The School Board retired the last of these obligations in 2011.

30 The resources for capital projects include: the Qualified School Construction Bonds, FEMA Settlement Funds, Community Development Block Grants, Insurance Proceeds, Surplus Property Proceeds and Harrah's Casino Proceeds. Some of the School Board's post-Katrina capital expenditures occurred before the School Facilities Master Plan was adopted, but were included retroactively.

31 The School Board determined it owed the RSD $6 million in additional tax revenue for fiscal 2008. However, the operating surplus for that year totaled only $2.4 million. This necessitated a draw on Common Resources to meet the obligation to the RSD.

32 In 2006, the School Board transferred $25.7 million from the General Fund to a debt service fund for the eventual retirement of refunding bonds issued in 1991. These bonds represented a portion of the School Board's pre-Katrina bonded debt, which it must repay on behalf of the system as a whole.

33 In 2008, the School Board transferred $39.3 million from the General Fund to a capital projects fund established to manage revenues and expenditures for FEMA-funded capital projects. The transfer was necessary to meet FEMA's local matching funds requirements at the time and to fund capital expenses that were not eligible for FEMA reimbursement. The projects are considered Master Plan Projects, even though some of the expenditures occurred before the adoption of the School Facilities Master Plan in November 2008.

34 BGR analysis of the Orleans Parish School Board's General Fund Financial Highlights and 2006-2012 CAFRs.

35 The School Board purchased the building in 2011 with the hope of attracting other education tenants. The building produced net revenue of $50,000 that year and $239,000 in 2012. Orleans Parish School Board 2011 CAFR, p. 25, and 2012 CAFR, p. 25. The School Board had not withdrawn any of the net revenue through the end of fiscal 2012.

36 See La. R.S. 17:1990(C)(2) and 17:3995(A).

37 BGR also did not include minor amounts of state grants, such as 8(g) funds, that the School Board receives for specific programs and services. The expenses directly offset the revenues.

38 BGR calculation based on information provided by the School Board.

39 BGR calculation based on state MFP revenue as reported in the School Board's 2011 CAFR and the February 1, 2011, student count.

40 BGR calculation based on LA 4 data provided by the School Board and the February 1, 2011, count of preschool students receiving free or reduced price meals.

41 The total central office costs for fiscal 2011, including the cost reimbursed by charters and legacy costs, were $13.2 million.

42 Information provided by the School Board.

43 See La. R.S. 17:3995(A)(1).

44 Information provided by the School Board.

45 This was the unassigned General Fund Balance at June 30, 2012. Orleans Parish School Board, 2012 CAFR, p. 19.

46 Orleans Parish School Board, Policy Manual, Sec. D401 Annual Operating Budget.

47 The Louisiana Constitution Art. 7, Sec. 23, requires taxing authorities to lower, or roll back, their rates when overall property values rise, so that they take in the same amount of money. However, they may then vote to roll forward the rate and reap the tax revenue gain.

48 BGR calculation of the potential annual revenue from the 1.71-mill roll-forward, assuming a 90% collection rate.

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