

NOW

BGR's Spotlight on Local Government Issues

Proposed Policy Changes Would Improve NOLA Public Schools' Financial Accountability and Sustainability

December 14, 2020

This week, the Orleans Parish School Board will consider three policy changes that would strengthen NOLA Public Schools' financial accountability measures and support the district's financial sustainability.¹ The changes address financial oversight of closing charter schools, public funding returned from closed schools and the district's use of its General Fund reserves. The proposed policies, as well as a policy the School Board adopted last month, align with findings and recommendations in BGR's March 2020 report, [*Learning Curve: A Guide to Navigating School Funding in New Orleans' Unified District*](#).

Proposed Policy Changes. Charter schools that are closing may have accumulated significant reserves during their years in operation. As *Learning Curve* discussed, Louisiana law requires charter schools to return any remaining public assets to the local district when they close.² However, it does not prevent closing schools from making unnecessary expenditures that exhaust those resources. Generally, the autonomy provided to charter operators under State law does not allow the district to regulate schools' expenditures or financial management prior to closing.

This does not mean, though, that NOLA Public Schools cannot pay closer attention. One of the proposed policies on the School Board's agenda this week tasks NOLA Public Schools' administrators with developing a detailed framework for monitoring the finances of closing schools.³ It also outlines the process the district would

follow to ensure that closed schools return any remaining public funding in a timely manner. A closing school would have to work with district officials to develop a detailed financial monitoring plan and regularly submit updated budget forecasts, including all projected close-out costs. The forecasts would enable the district to project the amount of public funding it expects the school to return and track any changes during the close-out period.⁴

The proposed policy would close a gap in the district's financial oversight and help ensure the full return of surplus public funds to the system. While the district still could not block closing schools from making wasteful expenditures or prevent schools in charter networks from steering reserves to their central management organizations, the policy change would facilitate scrutiny of the appropriateness of such expenditures.

Another policy the School Board will consider goes hand-in-hand with the proposed improvements in oversight of closing school finances and could help NOLA Public Schools preserve its General Fund reserves. These reserves are the only systemwide financial cushion for the city's public schools, making them a vital resource during emergencies. The proposed policy would create the School Transformation Fund to hold all funding recouped from closed schools.⁵ The policy would restrict uses of the fund to providing support for operators reopening closed schools or taking over operation of schools directly run by the district.

Currently, NOLA Public Schools relies on its General Fund reserves to give new operators – sometimes the district itself – the additional financial resources often needed to take over and reopen a school. These allocations siphon off reserves that would otherwise be available for emergencies and essential one-time expenditures. And as an almost all-charter school district, NOLA Public Schools retains minimal local and State school funding, making it difficult for the district to replenish its reserves.

The third policy change would complement the creation of the School Transformation

Fund. Under the proposed change, allocations from NOLA Public Schools' General Fund reserves would no longer automatically follow schools transferring from direct district operation to charter operation.⁶ During fiscal year 2018, the district allocated about \$1.5 million from its reserves for this purpose.⁷

Because the School Transformation Fund's balance would likely be minimal if few schools close, or if closed schools had insignificant reserves, NOLA Public Schools can still use General Fund reserves for schools it takes over from charter operators and directly runs. While the School Transformation Fund would be the district's first choice in such cases, the General Fund balance would remain a second option.

Recently Adopted Policy Change. In addition to these proposed policy changes, the School Board adopted a policy in November that follows another recommendation from *Learning Curve*. The policy codifies and improves the process NOLA Public Schools uses to allocate "deferred" local tax revenue to schools.⁸ State law bases local revenue allocations for charter schools on the prior year's tax collections. If current-year tax revenue exceeds that amount, NOLA Public Schools ends up with a surplus. The State requires the district to distribute the excess – or deferred – revenue to charter schools under its jurisdiction. On the other hand, if current-year tax revenue falls below the prior year's collections, a "negative" deferred revenue situation exists. State law allows the district to carry the loss forward, and recover it from schools during years with positive deferred revenue.

While NOLA Public Schools has distributed deferred revenue for several years, it lacked a formal policy specifying how it calculates each school's allocation and which types of charter schools can receive deferred revenue. BGR found that in some years charter schools that were ineligible for local tax funding still received deferred revenue allocations.⁹ The new policy excludes these schools from deferred revenue calculations. The policy is timely because it also addresses procedures for dealing with negative deferred revenue – a

situation the district will face for the first time in the 2020-2021 school year as a result of the pandemic-induced drop in local tax revenue.

Continuing the Progress. *Learning Curve* analyzed the funding framework supporting K-12 public education in New Orleans, and offered several recommendations that would enable the nation’s most decentralized school system to more fairly, prudently and transparently allocate public resources.¹⁰ The policies discussed above are steps in the right direction. They have potential to improve NOLA Public Schools’ financial stewardship, create a protected revenue source essential to aid school transformations and reduce stress on the district’s General Fund reserves. BGR supports the proposed changes and encourages NOLA Public Schools to consider *Learning Curve’s* other recommendations, including:

- Setting a minimum goal for the unrestricted General Fund reserves of 15% of General Fund revenue to preserve this money as a flexible resource.
- Limiting usage of reserves to nonrecurring expenditures.
- Creating an annual public report, similar to the one BGR models [here](#), to show how it allocates revenue from each of its major funding streams. The report would supplement, not replace, existing reporting requirements, and present NOLA Public Schools’ revenue usage in a framework specifically designed to communicate the district’s core functions and activities.¹¹
- Engaging with State and, as necessary, federal policymakers, to advocate for an improved method for allocating federal grant funding in school districts with charter schools that serve as their own local education agencies. Improvements should address the disparities created by the current allocation method in funding for eligible students across schools.¹²

ENDNOTES

- 1 During its December 15 meeting, the School Board’s Committee of the Whole will review the policy changes and make recommendations to the full School Board. The School Board will vote on the changes during its December 17 meeting. Meeting times, agendas and materials and instructions for virtual attendance are available at <https://go.boarddocs.com/la/nops/Board.nsf/Public>.
- 2 See BGR, [*Learning Curve: A Guide to Navigating School Funding in New Orleans’ Unified District*](#), March 2020, p. 32.
- 3 The proposal would amend Policy HB, Oversight and Evaluation of Charter Schools.
- 4 NOLA Public Schools typically announces charter school closures in December. Schools slated for closure continue to operate for the remainder of the school year. However, the close-out period stretches beyond the end of the school year because the school must perform its annual audit.
- 5 The proposal would create Policy DCBD, School Transformation Fund.
- 6 The proposal would amend Policy DC, Annual Operating Budget.
- 7 The School Board approved cooperative endeavor agreements with charter school organizations taking over operation of three schools. Under the agreements, the new operators received General Fund reserve allocations equivalent to 7.5% of the schools’ prior-year budgets. BGR calculated the allocations accordingly.
- 8 Policy DCBC, Deferred Revenues.
- 9 See [*Learning Curve*](#), p. 32.
- 10 For the report’s complete recommendations, see [*Learning Curve*](#), pp. 12-13.
- 11 For the model, see [*Learning Curve*](#), Appendix I.
- 12 For a discussion of these disparities, see [*Learning Curve*](#), p. 30.

BGR acknowledges The Helis Foundation for its donation in support of the *Learning Curve* report.

