INTRODUCTION

On October 14, Orleans Parish voters will decide the fate of three property tax renewals for public schools. The tax renewals are 10-year millages dedicated to:

- Purpose A: textbooks, instructional equipment and materials, library books and school supplies.
- Purpose B: programs for improving discipline and decreasing dropouts.
- Purpose C: salaries, fringe benefits and productivity incentives for employees.

This report is intended to help voters make informed choices in the election. It explains the tax renewals and then provides background information and an analysis grounded in BGR’s mission of promoting the effective use of public resources. The report concludes with BGR’s position on the tax renewals.

AN OVERVIEW OF THE TAX RENEWALS

The Orleans Parish School Board is asking voters to renew the three millages for 10 years, beginning in 2019. The taxes would be renewed at their current rates and therefore would not result in a tax increase. The School Board currently levies the Purpose A and Purpose B taxes at 1.55 mills each and the Purpose C tax at 7.27 mills. Collectively, the 10.37 mills would continue to generate approximately $38 million a year for public schools. (See Table 1.)

Though the tax renewals will appear as three separate items on the ballot, this report analyzes them together because they have the common purpose of paying for school operations. The School Board distributes almost all of the tax revenue to individual public schools on a per-pupil basis.

TABLE 1: PROJECTED ANNUAL MILLAGE REVENUE

<table>
<thead>
<tr>
<th>Dedicated Purpose</th>
<th>Millage Rate</th>
<th>Projected Annual Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose A: School books, materials and supplies</td>
<td>1.55 mills</td>
<td>$5.7 million</td>
</tr>
<tr>
<td>Purpose B: Discipline and dropout prevention</td>
<td>1.55 mills</td>
<td>5.7 million</td>
</tr>
<tr>
<td>Purpose C: Salaries, benefits and incentives</td>
<td>7.27 mills</td>
<td>26.6 million</td>
</tr>
<tr>
<td>Total Renewal</td>
<td>10.37 mills</td>
<td>$38.0 million</td>
</tr>
</tbody>
</table>

Source: Orleans Parish School Board

In New Orleans’ decentralized system, independent, nonprofit organizations operate most public schools under charter agreements authorized by the School Board or the Louisiana Board of Elementary and Secondary Education (BESE). The School Board directly runs only four schools in the 2017-18 school year.

Charter school leaders have substantial autonomy to decide how to spend each revenue stream, within the voter-dedicated purposes. The State of Louisiana (State) exempts them from many laws and regulations applicable to traditional public schools. Charter schools select their own textbooks.¹ They decide what equipment and supplies to buy.² They set school discipline procedures, within the bounds set by State law and their charter agreements,³ and decide how to identify and respond to students at risk of dropping out.⁴ Charter schools make their own employment decisions, including the compensation of school staff.⁵ According to School Board officials, New Orleans charter schools have created a variety of benefit programs for teachers and staff, and some have implemented performance-based pay.

The School Board provides significant autonomy to the principals of its four direct-run schools, but to a lesser
extent than charter schools enjoy because of the limits of board policy and State law. For example, principals choose their schools’ textbooks. However, they lack the legal authority to enter into contracts or purchase agreements; the central office must buy equipment, books and supplies.

Principals of direct-run schools manage student discipline in accordance with State law and School Board policy. Unlike charter schools, though, they must follow dropout prevention strategies approved by BESE and notify parents of absences.

Relative to employment decisions, principals control all hiring and placement decisions for teachers and other personnel at the school, subject to the superintendent’s approval. They select their employees from a pool of applicants vetted by the School Board’s central office. They must follow the superintendent’s approved salary schedule and benefit programs.

For both charter and direct-run schools, the taxes provide about 8% to 9% of a typical school’s general fund operating budget. Other revenues, such as sales taxes, state operating funds and federal grants, make up the difference. The financial picture is discussed more fully in the next section.

**BACKGROUND**

Voters originally approved the three millages in 1988 for a 10-year term. They renewed them in 1998 and again in 2008. The School Board is asking voters now to renew the millages for an additional 10 years at their current levied rates. This would not result in a tax increase (see sidebar “The Taxpayer’s Bottom Line”).

With one exception, the millage dedications have not changed during the past 30 years. This fall, for the first time, the Purpose B renewal excludes early childhood education. The School Board acknowledges a need for more funding for early childhood education in New Orleans, but it views the Purpose B millage, which also supports discipline and dropout prevention, as too small of a revenue source to meet the need. It continues to explore new funding options to support early childhood programs.

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**THE TAXPAYER’S BOTTOM LINE**

If voters renew the millages, property owners would not see a tax increase. They would continue to pay a total of 10.37 mills. A homeowner with a homestead exempt property valued at $330,000 would continue paying $264.44 per year.* Commercial properties would continue paying $145.18 per $100,000 of property value.**

If voters reject all three propositions and the taxes expire, the overall property tax rate for the School Board would decline from 45.31 mills to 34.94 mills.

* BGR calculated the homeowner impact using a value of $330,000 based on data from the New Orleans Metropolitan Association of Realtors, which show the average sale price for a single-family home in Orleans Parish during the 12 months ending June 2017 was $330,427. See New Orleans Metropolitan Association of Realtors (NOMAR), “Market Statistics,” http://www.nomar.org/gsrein-mls-public//market-statistics-public.html.

** For the commercial calculation, BGR assumed that land value accounts for 20% of total value.

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**A Changed Landscape and a Unification Plan**

While the three millages have provided a constant source of funding for basic costs of public education, the landscape in which they are spent has changed dramatically since 1988. At that time, the School Board directly operated all schools and maintained a large central office. There were no charter schools in Louisiana or, for that matter, in the U.S. 11

Even in 2005, when Hurricane Katrina struck New Orleans, the school system still looked largely the same. Few charter schools existed, and BESE had moved only a handful of failing schools into the Recovery School District (RSD).

Then, shortly after the storm, the RSD expanded rapidly in New Orleans. The State Legislature transferred most of New Orleans’ schools from the School Board to the RSD. Subsequently, the School Board and the RSD, acting through BESE, began turning schools over to charter operators. The RSD accelerated its conversions following the 2009-10 school year. It became the first all-charter school district in the nation in 2014-15.12
The School Board may soon convert its remaining four direct-run schools to charter schools. It will consider any conversions in its annual charter application and review process. Converting the schools would complete its transition from a central operator of schools to a regulator of independent charter schools.

In 2016, the State Legislature mandated the transfer of all RSD charter schools in New Orleans to the School Board by July 1, 2018. This process, commonly known as “unification,” remains on track to meet that deadline. At that point, the School Board will be primarily responsible for:

- Authorizing, regulating and holding charter schools accountable for their performance, including decisions on school closure.
- Managing citywide programs and services, such as the EnrollNOLA common enrollment system.
- Managing system finances.
- Overseeing public school facilities in coordination with the schools that lease and maintain them.
- Executing systemwide planning and community engagement.

In this unified context, the School Board’s oversight role will expand as it regulates more schools and absorbs functions and facilities previously managed by the RSD.

Academic Gains

Since voters last considered these taxes in 2008, public schools have made significant academic gains. For example:

- The number of high-performing schools has risen from three to 18, while the number of failing schools has dropped from 23 to eight.
- The average ACT score has steadily increased since 2012-13, the first year when all students were required to take the test.
- The combined annual dropout rate for the School Board and RSD schools has decreased from 12.4% to 7.1%.

Academic research has credited the transfer of schools to the RSD, the birth of a mostly charter school system and other systemic reforms such as citywide school choice and tougher school accountability standards as factors that have helped drive these improvements.

But more work lies ahead. The high school graduation rate, for example, remains below the state average, having dipped slightly in 2015-16. The average ACT score of 18.9 remains below the state average of 19.6. And elementary schools must raise the percentage of students testing at or above “mastery,” Louisiana’s new, long-term performance standard that corresponds to national standards for proficiency.

The Financial Picture

Throughout all of the changes to New Orleans public education since Katrina, the School Board has remained the financial steward for the public schools, both charter and direct-run. It alone has taxing and bonding authority. Its 2017-18 budget totals $311.8 million. Of this amount, it passes through $253.8 million (81%) to individual schools. It uses approximately 8% to pay annual debt service on outstanding school construction bonds, and another 3% to pay for legally required services to nonpublic schools and for certain citywide programs. The balance, $23.5 million, funds the School Board’s central office. Chart A illustrates the breakdown of the revenues.

Almost all of the School Board’s revenue is recurring ($305.7 million). It consists of sales and property taxes, including the three property taxes up for renewal; state Minimum Foundation Program funds for schools authorized or operated by the School Board; state and
federal grants; and other sources.23 In 2018-19, the first post-unification school year, the School Board expects only a limited increase in revenues (approximately $4 million) to accompany the transfer of charter schools from the RSD.24

As unification draws near, the School Board has reorganized and pursued efficiencies in its central office. The School Board has restructured its central office to handle expanded school oversight, more systemwide services, increased facility management and other responsibilities as regulator of the unified system. In 2017-18, it achieved a 21% net reduction in central office staff, from 153.65 to 121.40 full-time equivalent positions. The net reduction reflects greater school-level management of state and federal funds, greater autonomy and responsibility for the remaining district-operated schools, and other efficiencies in central staffing, partially offset by an increase in staff for school oversight purposes.

Central office efficiencies have helped the School Board lessen its reliance on the system’s General Fund balance and nonrecurring revenue. It has reduced its General Fund operating deficit from $4.8 million last fiscal year to $3.2 million currently projected for 2017-18. It projects a further decrease to slightly more than $1 million in 2019-20. It continues to seek efficiencies to eliminate the use of one-time revenue altogether.25

The three millages, if renewed, will generate approximately $38 million a year in total. The revenue is $850 per pupil and, as mentioned above, 8% to 9% of the average school’s general fund budget.26

The School Board distributes approximately 98% of the millage revenue to individual schools on a per-pupil basis. State law permits the School Board to withhold approximately 2% of the millage revenue, as well as other state and local revenue that schools receive on a per-pupil basis, to fund central administrative costs, such as school oversight and accountability.27 One option to eliminate the School Board’s deficit would be to seek a legal change to increase the 2% administrative fee. However, the School Board told BGR that it does not intend to seek a fee increase, and instead will pursue further operational efficiencies to close the deficit.

On the capital side, the School Board and the RSD have rebuilt or renovated the vast majority of school facilities since Katrina. They have jointly executed a master plan that is mostly funded by federal hurricane recovery dollars.

In 2014, voters approved a new tax for facility maintenance and repair to help preserve the useful life of these major capital investments. The School Board imposes the tax at 4.97 mills minus the rate of the existing tax to pay debt service on its general obligation bonds. As a result, the millage rate of the new tax will increase as the rate of the bond tax decreases, keeping the total millage at the current 4.97 mills. The School Board expects to fully retire its bonds in 2021, allowing the full amount of the tax to support facility maintenance and repair.

ANALYSIS

In its 2008 ballot report on these same tax renewals, BGR framed its analysis with two key questions: Are the funds necessary? Are they going to be well spent?

Then, BGR considered the renewals amid the uncer-
tains future of the public school landscape. Enrollment trends and growth estimates remained in a state of flux as the city repopulated after Katrina. These factors raised questions pertaining to the necessity of the funds and fiscal prudence.

The prior uncertainty does not now exist. The school system has enjoyed stable enrollment growth for several years. The School Board and the RSD have regularly analyzed enrollment trends and forecasts. The unification process itself has required the creation of a citywide plan. The School Board and RSD officials, school leaders, educators, parents, students and community members have participated in the planning process. The School Board adopted the unification plan last year. Overall, school officials have demonstrated a commitment to strategic planning.

Additionally, as part of the unification process, the School Board will revise its framework for holding schools accountable for their performance. In the next 10 years, it will be up to the School Board to preserve academic gains and support the schools toward greater academic performance, including improved graduation rates and test scores.

Failure to renew the millages would subtract a significant source of funding from school budgets citywide. The School Board has no other source of revenue to offset that loss, meaning the consequences for Orleans public schools would be severe. For example, a school of 600 students would lose more than $500,000 in annual operating revenue.

Alternatively, their renewal would stabilize funding toward execution of the unification plan and protect against disruption of positive trends in academic gains.

BGR also examined whether the tax renewals would be well spent. Overall, the School Board has established a track record for responsible financial management since Katrina. It currently enjoys a strong AA long-term bond rating from Standard & Poor’s, one of the highest among local governments.

Importantly, the School Board has taken a major step forward in transparent budgeting. In 2013, BGR studied the School Board’s finances in a report entitled, The Accidental Steward: The Orleans Parish School Board as a Resource Manager in the Reform Era. The report identified a need to improve transparency and accountability in the School Board’s resource management for the decentralized school system. Specifically, BGR recommended that the School Board expand its 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. For example, revenues and expenditures that benefit the system as a whole should be tracked separately from those that assist only district-run schools or charter schools. Without this level of detail, the public cannot tell if the School Board is properly allocating resources within the decentralized system. The School Board’s 2017-18 budget introduces a framework that provides an effective breakdown of revenues, expenditures and uses of fund balance, not just for the General Fund but also for other major funds. In addition, the School Board will increase transparency and oversight of individual schools’ spending of the three millages up for renewal. Since Katrina, the School Board has not required schools to report whether they have used the millage revenues for their dedicated
purposes. Currently schools spend more on school books, materials and supplies, discipline and dropout prevention, and employee compensation than the millages produce. However, with unification in 2018, the School Board will categorize distributions of the millage revenues and require schools to track expenditures of each revenue stream. The School Board told BGR it is committed to paying for independent audits to check that schools have spent the revenues on the dedicated purposes. These measures will better balance school autonomy with financial accountability.

The improved School Board budgeting and oversight processes will provide greater assurance to taxpayers that the School Board is properly allocating and monitoring financial resources for the public schools. Ultimately, they should achieve a new level of transparency and accountability, pointing toward increased effectiveness in the School Board’s use of public resources.

**BGR POSITION**

**FOR.** Renewing the three millages would preserve significant, reliable funding streams for school books, materials and supplies, discipline and dropout prevention, and employee compensation. These are some of the most basic operational needs for successful schools. The tax renewals would stabilize funding toward execution of the unification plan and protect against disruption of positive trends in academic gains. In addition, the School Board has maintained its solid performance as the financial steward for all public schools and continues to enhance its budget transparency and oversight of public funds.
ENDNOTES

1 La. R.S. 17:3996 exempts charter schools from choosing textbooks from lists approved by BESE or the School Board.

2 Charter schools are organized as independent nonprofit organizations under Louisiana law, including the right to acquire and dispose of property. La. R.S. 12:207. They are exempt from state laws and School Board policies governing the purchase of equipment, materials and supplies. La. R.S. 17:3996.

3 For example, the charter agreements for Orleans Parish charter schools authorized by the School Board or the Recovery School District require them to participate in a common expulsion hearing process. They must also comply with State laws relative to suspensions, expulsions, corporal punishment and other disciplinary matters.

4 La. R.S. 17:3996 exempts them from following state-approved dropout prevention strategies (see La. R.S. 17:221.4). According to the School Board, charter schools, as well as direct-run schools, have implemented a variety of data-driven approaches to dropout prevention. They have also worked in partnership with the School Board, the Recovery School District and nonprofit organizations.

5 La. R.S. 17:3997.


7 La. R.S. 17:126 and information provided by the School Board.

8 La. R.S. 17:416 and School Board Policy CDA.

9 La. R.S. 17:221.4 and 17:233.

10 School Board Policy CDA.


12 In 2009-10, there were 37 schools directly operated by the RSD or the School Board. While the School Board today has the same number of direct-run schools (4) as it did that year, the RSD reduced its direct-run schools from 33 in 2009-10 to none in 2014-15. BGR calculations based on various sources.

13 La. Acts 2016, No. 91 allows for a one-year extension of that deadline.

14 For the latest progress report on school unification, see http://opsb.us/nola-schools-unification/.

15 BESE will oversee only a handful of charter schools outside of the RSD. It has ceased authorizing new RSD charters in New Orleans. This means that, by law, BESE will grant new charters in New Orleans only to local applicants appealing certain School Board decisions or to existing charter schools requesting a transfer. For a more in-depth discussion of charter school authorizing in New Orleans, see BGR’s report One Plus One: The Dual Authorizer Structure and the Future of New Orleans Schools, April 2016, available at http://www.bgr.org/reports/two-authorizer-structure-critical-to-orleans-parish-schools-success/.

16 BGR calculations for School Board and RSD New Orleans schools based on data compiled by the Louisiana Department of Education. BGR counted as high performing those schools receiving four or five stars under the rating system used in 2007-08 or letter grades of A or B in the rating system used in 2015-16. These letter grades were the most recent available as of mid-September 2017.


18 BGR calculations for School Board and RSD New Orleans schools based on data compiled by the Louisiana Department of Education. The average annual dropout rate statewide in 2015-16 was 4.2%. The 2015-16 school year is the most recent available from the state.


20 The graduation rate reflects the percentage of students who entered 9th grade in the same year and graduated on-time four years later. It does not include students with other outcomes, i.e., completing a GED or certificate, attending high school in the fifth year or dropping out. Louisiana Department of Education, Understanding Louisiana’s Graduation and Dropout Rates, October 2011. Data for the School Board and RSD New Orleans schools shows a combined graduation rate of 72.1% in 2015-16, compared to 75.5% in 2014-15. The statewide average in 2015-16 was 77%. Louisiana Department of Education, State and District Graduation Rates, 2005-06 to 2015-16.

22 According to the School Board, only 42% of eighth grade students in New Orleans currently achieve mastery in English, and just 25% do so in math.

23 The Minimum Foundation Program, or MFP, is Louisiana’s program for allocating annual funding for K-12 education among local school districts and schools. http://www.louisianabelieves.com/funding/minimum-foundation-program.

24 According to the School Board, these revenues include the authorizer fee currently paid by RSD charter schools to the State and the RSD’s share of revenues from Harrah’s Casino.


26 The revenue from the three millages up for renewal accounts for a smaller share of a typical school’s budget (8%-9%) than of the School Board’s budget (12%). This is primarily because the School Board’s budget includes only limited State MFP funds; many charter schools in New Orleans receive that money directly from the State.

27 See La. R.S. 17:3995(4)(a)(i) relative to charter schools. The School Board retains a similar overhead charge in the funding structure for its direct-run schools.

28 Calculation based on $850 per student in revenue from the three millages.

29 For a discussion of the financial turnaround, see BGR, The Accidental Steward: The Orleans Parish School Board as a Resource Manager in the Reform Era, April 2013, pp. 5-6.


33 The $850 per pupil is approximately $127 per pupil for Purpose A (books, equipment and supplies), $127 per pupil for Purpose B (discipline and dropout prevention), and $596 per pupil for Purpose C (employee salaries, benefits and productivity incentives). In 2014-15, per-pupil spending by the School Board and the RSD averaged, respectively, $971 and $823 for supplies, and $6,480 and $5,887 for salaries alone. Specific data relative to discipline and dropout prevention spending were not available; however, for a 600-student school, $127 per pupil would provide only $76,200. This amount could fund little more than one employee in these areas. BGR analysis of Louisiana Department of Education AFS data for object codes 600, Supplies; 100, Salaries.
ON THE BALLOT: ORLEANS PARISH SCHOOL TAX RENEWALS, OCTOBER 14, 2017

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