

# **Public Education in New Orleans: A Financial Analysis**

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The Cowen Institute is committed to publishing objective and actionable research about the governance, finances, and operations of the new system of schools in New Orleans. On an ongoing basis, we will release timely analysis to inform educators, policy makers, and the public about the progress of our city’s extensive school reform. In addition, our work seeks to provide research-based solutions to the major problems affecting New Orleans public education. In this way, the Cowen Institute hopes to speed our city’s progress towards creating excellent public schools for every student.

## EXECUTIVE SUMMARY

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Prior to the dramatic changes in the public school landscape in New Orleans that occurred in 2005 – the devastation in the aftermath of Hurricane Katrina and the creation of the Recovery School District – mismanagement and corruption plagued the public school system. Today, reforms have been implemented throughout the system, leading to improvements across many areas. At the same time, these reforms have led to a system with dozens of school operators, each with their own financial context and challenges. In this new landscape, it is important that the financial missteps that characterized the pre-Katrina system are avoided at all costs. To this end, the sources, mandated uses, allocations and expenditures of funds must be fully understood and documented; allowing future monies to be efficiently allocated and judiciously spent.

Today, individual school operators and the two school districts in New Orleans face several financial challenges. Administrators and school leaders must deal with a host of issues: complex, and sometimes contradictory, rules governing funding; differing funding levels and sources across operators, and reliance on non-recurring funds to meet budgetary needs. Furthermore, each operator has latitude to make decisions about how to spend this funding within very general guidelines established by the state. These variations make for a confusing and complicated financial environment.

The purpose of this paper is to:

- To trace the sources of revenue that support public education in New Orleans and to analyze how it has been allocated and spent;
- To highlight some of the financial issues arising from the complexities faced by the various school operators and districts; and
- To provide recommendations on how to eliminate the barriers to sound financial analysis.

Based on the information contained in this report, we offer a number of major recommendations including the following:

- Increasing transparency and financial accountability throughout the school districts and operators;
- Changing the rules governing how funds are shared across schools; and
- Revising budgets to bring revenue and spending into alignment.

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# INTRODUCTION

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The variety of operators in New Orleans, combined with the array of different laws and regulations governing these operators, results in a confusing and muddled financial landscape for public schools in New Orleans. Given this, it is difficult for the community to know whether schools are using public funds efficiently and to the benefit of students. It is also difficult to know whether individual school operators are likely to be able to continue to serve students in the same manner in the future as they are today. In short, we lack the clarity and transparency necessary to hold public school operators accountable with respect to their financial decisions.

This paper examines financial documents from the Orleans Parish School Board (OPSB), the Recovery School District (RSD), and several charter schools. The purpose of this paper is to provide details on key metrics about school finance for all public schools in New Orleans.<sup>1</sup> Because of the challenges associated with analyzing financial information for public schools in New Orleans, this paper presents a “bird’s eye” view of the major components of school finances - such as revenue amounts, revenue sources, expenditure amounts, and categories of expenditures – for the districts and charter schools. This paper represents the first attempt to gather financial data for the full spectrum of school operators in New Orleans today.

A secondary purpose is to develop a fuller picture of the specific barriers to gaining a comprehensive understanding of the financial health of public schools in New Orleans that takes into account all schools. By identifying some key challenges, it may be possible to develop solutions that will make comparison and aggregation of financial data across districts and schools easier. This is a necessary step toward developing a transparent system that allows stakeholders to hold school operators accountable for their financial decisions and the impacts of those decisions on school performance.

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<sup>1</sup> Two charter schools authorized and funded directly by the state – the International School - Louisiana and Milestone SABIS Academy – are not included in this analysis.

## **SCHOOL DISTRICTS & OPERATORS**

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Currently there are 86 public schools operating in New Orleans: 67 schools in the RSD, 17 schools under the OPSB, and 2 schools under the Board of Elementary and Secondary Education (BESE). Together, these schools serve approximately 34,200 students in grades K-12.

### ***Orleans Parish School Board***

Historically, the OPSB operated all public schools in New Orleans. This situation changed with the creation of the RSD in 2003 and its expansion in 2005, which resulted in the transfer of most public schools in Orleans Parish to the state-operated RSD. The transfer of schools has resulted in a significantly smaller district overseen by the school board. In 2004-2005, OPSB operated approximately 120 schools. Today, the OPSB is responsible for 17 schools – 5 district-run schools and 12 charter schools.<sup>2</sup>

For the decade before Hurricane Katrina, New Orleans public schools were losing students at a steady rate. In the 1995-96 school year, there were 82,100 students in the district. By 2004-05, that number had dropped to 64,900. However, the major change to the number of students served by the OPSB came after Hurricane Katrina and the creation of the RSD. In 2005-06, the number of students served by the district (in both district-run and charter schools) dropped below 6,000. As of October 2008, there were 9,700 students in OPSB schools, an 88 percent decline from the number of students served a little over a decade ago. The decline in the number of students is even more striking if only district-run schools are considered. Currently, less than 30 percent (2,550 students) of all OPSB students are enrolled in one of the five district-run schools. This is only 3% of the number of students in OPSB schools a decade ago.

Despite the emergence of the RSD and charter schools, the OPSB has all of the rights and responsibilities of a local school board under Louisiana law, including levying and collecting property and sales taxes to support public schools in the parish. Because the schools under the authority of the RSD (including charters) and the charter schools overseen by the OPSB are entitled to local tax revenue but do not have authority to levy taxes, the OPSB levies taxes on behalf of all schools and then distributes this revenue on a per-pupil basis.

Another important legal role of the board relates to debt management. Despite the creation of the RSD, the school board remains responsible for managing the debt incurred by the district over its history - totaling roughly \$450 million – and for making annual debt service payments on certain liabilities.

### ***Recovery School District***

The RSD was created by the Louisiana State Legislature in 2003. Over the next couple of years, a handful of failing New Orleans public schools were transferred to the RSD. In November 2005, the legislature passed a new law making it easier to transfer large numbers of failing schools into the RSD. Shortly after, over 100 schools were transferred from the OPSB to the RSD, leaving fewer than 20 schools in the control of the OPSB.

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<sup>2</sup> The OPSB also provides teachers and administrative support for the Youth Study Center and the Alternative Learning Institute, facilities for youth involved with the juvenile justice system.

Not all of the schools transferred to the RSD reopened after Hurricane Katrina. Currently, the RSD oversees 67 schools that are open – 33 district-run and 34 charter schools. Student enrollment in the RSD grew significantly during the year following the take over of failing Orleans Parish schools. At the end of the 2005-2006 school year, there were 2,300 students in the RSD. The following year, enrollment grew to 16,300. As of October 2008, 23,600 K-12 students were enrolled in RSD schools. Approximately 49 percent of RSD students are currently enrolled in charter schools with the remaining 51 percent enrolled in district-run schools.

The schools operated by the RSD have sometimes been referred to as the “schools of last resort” in New Orleans,<sup>3</sup> a reference to the fact that the RSD must take any student in New Orleans who needs to enroll in public schools. In contrast, the OPSB is limited in the number of schools that it may operate, so once those schools are full new students cannot enroll. On top of enrollment limits, some OPSB schools have admission requirements. Similarly, each RSD charter school is likewise limited in the number of students that it can enroll. Enrollment caps at these schools mean that students who cannot find space elsewhere must turn to RSD-run schools. Furthermore, the RSD has the ability to open additional schools as needed to serve the population in New Orleans.

The fact that RSD-operated schools must take any student who needs to enroll in public schools impacts the district’s financial planning. RSD officials must rely on estimates of the number of students the district will serve in the future and how much revenue the district will subsequently receive under the Minimum Foundation Program (MFP). As the population of New Orleans continues to stabilize in the wake of Hurricane Katrina, this issue should present less and less of a challenge for RSD officials. On the other hand, the stability at RSD-run schools may be lessened as more charter schools open in the RSD.

### ***Charter Schools***

Currently, there are 48 charter schools in operation in Orleans Parish.<sup>4</sup> Charter schools are public schools run by independent operators under an agreement with either the OPSB or BESE.<sup>5</sup> Charter school operators have significant flexibility in most aspects of operating their schools, including developing school budgets. However, charter schools are still financially tied to their districts in that they receive funding from the districts.

As of October 2008, RSD and OPSB charter schools served 18,800 K-12 students, or 56 percent of students in those two districts. RSD charters served 11,600 students, half of all RSD students. OPSB charters served nearly 7,200 students, nearly 75 percent of all OPSB students.

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<sup>3</sup> Tough, Paul. August 14, 2008. A Teachable Moment. *New York Times Magazine*.

<sup>4</sup> This figure includes two charter schools that are chartered directly by BESE and are not part of either OPSB or the RSD: Milestone SABIS Academy and the International School – Louisiana. These schools receive funding directly from the state legislature rather than through the MFP program. Because of the differences in funding procedures, these two schools are not considered in this white paper.

<sup>5</sup> Charter schools in the RSD are authorized by BESE. The relationship between the charter schools and the RSD is primarily related to finances and facilities.

# FUNDING SOURCES FOR PUBLIC SCHOOLS

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Public schools receive funding from a variety of local, state, federal and private sources. This section presents an overview of the major sources of these funds for public schools in Louisiana. In addition to the programs described below, public schools in New Orleans receive small amounts of funding from a number of other sources.

## *Local and State Funding*

Minimum Foundation Program (MFP) - The primary source of state and local funding for schools in Louisiana is the MFP. Managed by BESE, the MFP combines local and state revenue under a formula that BESE establishes to ensure that every student in Louisiana receives at least a minimum foundation of education. The MFP formula also includes factors that provide more funding for special classes of students (e.g., at-risk and special education students), that provide additional funds as an incentive to districts to levy additional taxes, and that cover the cost of certain state-approved teacher pay raises.

The local funding in the MFP consists of property and sales taxes levied by school boards. In New Orleans, local taxes generate approximately \$182 million for public schools.

The state funding in the MFP comes from an appropriation by the State Legislature. Aggregated at the state level, the state pays 65 percent of the total cost of the minimum foundation. However, funding for individual districts varies based on the wealth of the district, with wealthier districts receiving a lower percentage of state funding than poorer districts. Across the state, the state-funded portion varies from 37 to 84 percent. In New Orleans, for 2008-2009 the state portion makes up 49 percent of total MFP funding. OPSB and RSD schools receive the same amount of funding per pupil under the formula.<sup>6</sup> As the taxing body for Orleans Parish, the OPSB collects tax revenue for all public schools and transfers the appropriate per pupil amount under the MFP to RSD schools (traditional and charter) and OPSB charter schools.

## *Federal Funding*

A variety of federal programs also provide funding for public schools. The primary federal programs that provide funding to public schools are described below.

Title I—Improving the Academic Achievement of the Disadvantaged -- Title I provides financial assistance to schools with high numbers or high percentages of poor children to help ensure that all children meet challenging state academic standards. Federal funds are currently allocated through four statutory formulas that are based primarily on census poverty estimates and the cost of education in each state.

Title II – Preparing, Training, and Recruiting High Quality Teachers and Principals -- The purpose of the program is to increase academic achievement by improving teacher and principal quality. This program is carried out by increasing the number of highly qualified teachers in classrooms; improving the skills of principals and assistant principals in schools; and increasing the effectiveness of teachers

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<sup>6</sup> While BESE calculates only one per pupil funding amount for Orleans Parish, regulations related to sharing local revenue result in slight variations across OPSB charter schools, RSD-run schools, and RSD charters in terms of funding. See the sections on the RSD and charters for more information.

and principals by holding LEAs and schools accountable for improvements in student academic achievement.

Title III – Language Instruction for Limited English Proficient and Immigrant Students -- The purpose of this program is to help ensure that children who are limited English proficient, including immigrant children and youth, attain English proficiency, develop high levels of academic attainment in English, and meet the same challenging State academic content and student academic achievement standards as all other students are expected to meet.

Title IV – Safe and Drug Free Schools -- The purpose of Title IV is to support programs that prevent violence and the use of alcohol, tobacco, and drugs in schools. Title IV also promotes the involvement of parents and communities to foster a safe and drug-free learning environment that supports student academic achievement.

Title V – Innovative Education Program Strategies -- The Title V program was designed by Congress to coordinate with all federal and state innovative programs as a supplement. The program assists local education reform efforts that are consistent with and support statewide reform efforts. They also support state and local efforts to implement promising education reform programs, provide a continuing source of educational improvement, help meet the special needs of at-risk and high-need students, and support programs to improve school, student, and teacher performance.

Individuals with Disabilities Education Act (IDEA) – The mission of IDEA is to improve results for infants, toddlers, children and youth with disabilities ages birth through 21 by providing leadership and financial support to assist states and local districts.

National School Lunch Program (through the U.S. Department of Agriculture) -- This program is a federally assisted meal program that provides nutritionally balanced, low-cost or free lunches to students from low-income families.

Public Charter Schools Federal Grant Program -- This program provides financial assistance for the planning, program design, and initial implementation of charter schools and for the dissemination of information on charter schools. Currently, new charter schools in Louisiana are eligible to receive funding under this program for up to 3 years at \$200,000 per year.

Immediate Aid to Restart School Operations -- This program was created by the Hurricane Education Recovery Act passed after Hurricanes Katrina and Rita. Commonly referred to “Restart,” this program provided funds to help cover expenses related to the restart of operations in, the reopening of, and the re-enrollment of students in elementary and secondary schools in areas affected by the hurricanes.

### ***Private Funding***

Many private donations have been given to the public schools of New Orleans by individuals and local and national foundations. The nature and amount of these donations varies from school to school.

# FINANCIAL ANALYSIS OF SCHOOL DISTRICTS AND OPERATORS

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All public school operators in New Orleans prepare annual budgets for their fiscal years, which begin on July 1. The OPSB approves the annual budget prepared by the administration of the school district, and BESE approves the annual budget prepared by the administration of the RSD. The two districts make their budgets available on their websites. For charter schools, individual charter boards approve the budgets prepared by school leaders. There is no central repository of charter school budgets, and many schools do not make their budgets readily available in any venue.

While the general information presented by each budget is the same, the budgets cannot be directly compared in all areas. For example, the OPSB presents school-level budgets while the RSD does not. On the other hand, the RSD provides a summary of expenditures by function while the OPSB does not. The analysis below presents general information from the budgets, compares information where possible, and highlights specific challenges for different operators.

## *Orleans Parish School Board*

In September 2008, the OPSB adopted a budget for the fiscal year that had begun on July 1, 2008. Budget documents available to the public identify anticipated sources of revenue for the district and anticipated expenditures as of that time. Information on school-based spending is available for the general fund (which consists primarily of funding under the MFP) but not for the special revenue fund (which consists primarily of federal categorical funding). Except as otherwise noted, information in this section is based on the 2008-2009 budget adopted by the OPSB in September 2008. As with any budget, revenues and expenditures may change throughout the year.

### ***Revenue***

The 2008-2009 OPSB budget shows total revenues of \$280 million. The majority of this revenue - \$200 million – is General Fund revenue. Most of the remainder is either from federal and state programs that target specific student populations or from taxes collected specifically for long-term debt service.

As discussed above, the OPSB collects tax revenue on behalf of other public schools in Orleans Parish and passes it through to both its own charter schools and to RSD schools. After pass-throughs, the OPSB has general fund revenues of \$38.5 million for the schools it operates directly. (Note that this figure is for the general fund only; it does not include the special revenue fund). The OPSB also collects revenue to pay annual debt service on bonds issued in the 1990s. Almost \$40 million of total revenue is dedicated to debt service.

The district also receives approximately \$30 million in federal revenue. This amount includes almost \$27 million in revenue from programs operated by the U.S. Department of Education that target specific populations, such as at-risk students, for the 5 schools that they directly operate and the 12 charter schools that they oversee. Because charter schools authorized by the OPSB are not considered separate local education agencies (LEAs), most federal revenue for these schools passes through the OPSB. The OPSB budget documents do not break out charter school revenue from revenue for

district-run schools in this category; the \$30 million is for the 17 schools under the auspices of the school board.

The remaining \$10 million in revenue comes from state categorical programs and one-time federal dollars dedicated to certain capital projects.

The majority of revenue for the OPSB for all funds combined (e.g., general fund, special revenue fund, debt service fund) this year comes from recurring sources. However, the OPSB has had to draw funds from its reserve account to balance this year’s budget. The District has moved \$6 million from reserves into the OPSB general fund. As a result, funds from reserves will constitute 15.7 percent of all revenue in the OPSB *general fund* this year (after transfers out to the RSD and charter schools). Funds taken from reserves will be used to address legacy costs incurred prior to the dramatic downsizing of the district that occurred post-Katrina. For example, the OPSB is responsible for costs related to retiree health care and workers’ compensation claims from when the district was much larger in size. Thus, while the OPSB is a small district today in terms of the number of students it serves, it has costs that were incurred by a much larger district. OPSB officials estimate that the district will incur \$6 million in expenses in retiree health care costs, workers’ compensation claims from prior years, and legal fees related to litigation from previous years. These costs represent a structural problem for the district that is unlikely to be solved in the short term unless legacy costs can be shared across all schools in New Orleans or additional revenue sources are found.

***Expenditures***

For the 2008-09 school year, the OPSB’s anticipated expenditures total \$277 million. However, as discussed above, this figure overstates the cost of operating OPSB-run schools. One-third of the OPSB’s expenses are payments to the RSD; another 21 percent of expenditures are in the form of transfers to charter schools; and fourteen percent of the OPSB’s expenses are payments on pre-Katrina bond debt.

<b>Table 1: OPSB Budgeted Expenditures, 2008-2009</b>	
Total Budget	\$276,582,000
Revenue Pass Through to RSD	(\$101,651,000)
Revenue Pass Through to Charter Schools	(\$56,696,000)
Debt Service	(\$39,582,000)
Net Budget*	\$78,653,000

*\*Note: The Net Budget amount may include federal categorical funding for charter schools as well as district-run schools. Budget documents do not clearly identify the amount of federal funding that the OPSB receives on behalf of charter schools.*

As Table 1 shows, OPSB’s net budgeted expenditures after pass-throughs and transfers are approximately \$79 million. This budget covers the costs of operations at OPSB-run schools, administration of OPSB-run schools, oversight of OPSB charter schools, and overhead related to levying and collecting taxes. It also includes \$8.5 million for specific capital projects that are funded by non-recurring federal funds, the majority of which are dedicated to the Mahalia Jackson Early Childhood and Family Learning Center.

School based budgets at the five traditional schools operated by the OPSB account for \$17.8 million of OPSB expenditures from the general revenue fund (not total revenue).<sup>7</sup> The method used by the OPSB to allocate funds to individual schools does not result in equal per pupil expenditures across district-run schools. In determining the amount of funding to budget for each school, the OPSB looks at pupil-teacher ratios and teacher salaries. As the salaries of teachers at different schools vary, the amount of funding for each school varies. Another expense that results in significant differences in funding across OPSB schools is transportation costs. Transportation costs for the OPSB-run elementary schools are four to six times higher than the state average. These higher costs are likely due to the fact that these schools serve students from throughout the parish. (While transportation costs for the district-run high schools are also high, they are not as high as at the elementary schools.) Costs related to the physical plant - such as custodial services, repairs, and electricity costs - also vary from school to school within the OPSB when calculated on a per pupil basis. Overall, it appears that the variations in per pupil expenditures across OPSB-run schools are driven by a number of factors rather than by one single factor.

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***A long-term plan to address legacy debt is critical if the OPSB is going to bring its spending in line with its revenues.***

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***Potential Challenges Facing the District***

As discussed above, the OPSB has unique issues that it must address. These issues have an impact on the district’s financial picture.

High Overhead Costs

High administrative costs may threaten the long-term financial health of the district. Because it is predicting a budget shortfall this year and because it is a substantially smaller district than it was in the past, the OPSB approved a plan in October 2008 to reduce its workforce by 30 positions. Twenty-five positions will be eliminated from schools – out of a total of 230 school-based positions. The other five will be eliminated from the central office – out of a total of 74 positions.

This reduction in force will continue the trend of decreasing the workforce of the OPSB to mirror the decrease in the student population of the district. In 2004-2005, the district central office had 918 employees dedicated to support services<sup>8</sup> - or 1 central office support staffer for every 71 students. **The 2008-2009 budget showed 74 central office positions prior to the planned reduction of workforce – or 1 central office support staffer for every 35 students.** Thus, there are proportionally more central office staffers than before Katrina; furthermore, the number of OPSB central office

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<sup>7</sup> At the time this paper was prepared, the district had not released budgets for by school/department that include all sources of revenue. However, the majority of special revenue fund expenditures are school-based. Thus, total percentage of total expenditures that are school-based is likely higher than the percentage of general fund expenditures that are school-based.

<sup>8</sup> The Louisiana Department of Education provides summaries of reported personnel for every school district in the state by year. Employees are classified as “instructional,” “instructional support,” or “support services.” Within each of these categories, the location of employees, either “central office” or “other sites,” is also given.

staffers is higher than the average number of employees in these positions in similarly sized districts (when only OPSB-run schools are considered). The number of central office support staffers in the OPSB was compared to the number of similar staffers in the 10 districts throughout Louisiana closest in size to (but larger than) the OPSB. The 10 comparison districts had an average of 34 employees in the central office in 2007-2008 – or an average of 1 staffer for every 94 students.

In comparing the OPSB to these districts, it is important to remember that the central office for the OPSB would likely need more central office employees than the comparison districts for at least two reasons. First, the OPSB must handle all of the legal and financial work related to managing the legacy debt. Second, the district oversees 12 charter schools and must dedicate some staff to oversight activities. These functions, as well as any other extraordinary functions performed by the OPSB central office given the unique structure of public schools in New Orleans today, must be considered when determining the appropriate number of employees for the central office.

Another way to measure overhead is to examine expenditures on administrative functions; however, it is difficult to compare overhead costs as a percentage of total expenditures across districts. First, no generally accepted standard exists for district overhead and administrative expenses. Second, it is often difficult to identify overhead costs from budget documents alone. In some cases, centralized costs are not overhead costs. For example, because the OPSB is a highly centralized system, many services – including services that essentially serve students, such as curriculum development - are provided by the central office. Based on budget documents, it is difficult to separate centralized services provided to schools/students from those centralized services that are related to administration and overhead. However, by making some assumptions, many expenditures can be classified as overhead/administration. Conservatively, the OPSB spends 11.5 percent of its budget on administrative functions.<sup>9</sup> The RSD budget documents indicate that six percent of the district's total budget goes to administrative expenses. That comparison, combined with the comparison of employees in similarly sized districts, indicates that the OPSB may be able to reduce expenditures on overhead.

#### Costs Related to Oversight of Charter Schools

Unlike most school boards in Louisiana, the OPSB authorizes and oversees several charter schools. In fact, the OPSB is the only school district in the state that oversees substantially more charter schools than the number of schools it operates directly. In its role as an authorizer for its 12 charter schools, the district incurs expenses not incurred by other districts. The district collects and distributes local, state, and federal revenue on behalf of its charters. The district also has reporting responsibilities related to finances and accountability for its charters. Lastly, because charters in New Orleans are housed in district-operated buildings, the district maintains responsibility for major repairs and renovations of the buildings. It should be noted, however, that district expenditures on facilities is limited due to the lack of a dedicated source of revenue for capital needs.

In the past, the OPSB has not charged its charters any fees to cover overhead. In the 2008 Regular Legislative Session, the Louisiana Legislature passed a bill allowing local school districts to charge charter schools fees for expenses related to oversight. Local school boards may now charge a charter

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<sup>9</sup> Based on the FY 2008-2009 budget, this figure includes spending on the board office, the legal department, the superintendent's office, the human resources department, the special revenue department, the finance department, and the central office (primarily rent on buildings).

school up to two percent of per pupil MFP funding for the first year the school is in existence. After that, the district and a charter school may negotiate a fee not to exceed three percent of the per pupil MFP funding. It remains to be seen whether the OPSB will attempt to negotiate such fees and how much revenue the OPSB might receive from such fees to offset overhead costs.

Legacy Costs and Legacy Debt

The OPSB incurs costs on annual basis related to expenditures from when the system served many times the number of student it serves currently. For example, the number of retirees who have health care through the Board is proportional to a system that is much larger than the district is today. Additionally, the OPSB is responsible for all of the debt incurred by the Board throughout its history, including debt incurred when the system was much larger. For example, the Board is responsible for debt service on bonds issued in the 1990s when the district operated approximately 120 schools.

The OPSB has transferred \$6 million from reserves to cover legacy costs in FY 2009. (See *Revenue* above.) These funds cover costs related to retiree health care, workers’ compensation claims, and legal fees related to litigation. The Board will continue to incur most or all of these costs annually in the immediate future. Given that the OPSB receives funding for only approximately 2,600 students, it cannot cover these costs out of annual operating revenue. Until these costs are retired or shared across all schools in New Orleans, the OPSB will continue to face a significant financial burden on an annual basis.

Also, the OPSB has approximately \$450 million in long-term debt. Some of this debt was incurred before Hurricane Katrina when all public schools in New Orleans were under the OPSB; other debt was incurred after Hurricane Katrina. Despite the fact that much of this debt was incurred on behalf of all public schools in New Orleans, the OPSB alone has legal responsibility for this debt. Table 2 provides a breakdown of this debt and information about alternatives for repayment.

Table 2: Breakdown of OPSB Legacy Debt	
<p>General Obligation Bonds: \$195 million</p>	<p><i>In 1995, the voters in New Orleans approved a \$175 million bond issue to raise funds to repair and renovate school buildings in Orleans Parish. After voters approved this amount, the OPSB released several bond issues throughout the second half of the 1990s to raise funds for capital needs. Proceeds from these bond issued were committed to projects at that time, and the district has a dedicated source of revenue to repay this debt today.</i></p> <p><i>It should be noted, however, that under current state laws the OPSB must distribute some of the revenue for this debt to charter schools through the MFP; that is, the Board is not able to withhold the tax revenue that is generated specifically for debt service. This requirement places a financial burden on the OPSB, as it must offset this lost revenue from its other revenue.</i></p>

Gulf Opportunity Bonds: \$62 million	<i>These funds were used to cover expenses and debt service payments of the district as it recovered from Hurricane Katrina.</i>
Community Disaster Loan: \$59 million	<i>The OPSB has funds set aside to repay the Gulf Opportunity Bonds when they come due.</i>  <i>For the Community Disaster Loan, the OPSB has approximately \$60 million in unrestricted net assets, which could be used to repay this loan; however, that would leave the School Board with no reserves. This loan is potentially forgivable by the federal government. If the loan is ultimately forgiven, the district will be able to use the funds that have been set-aside to repay the loan for other purposes.</i>
Claims Payable: \$61 million	<i>The OPSB estimates that its current exposure on existing lawsuits is \$61 million; however, the majority of this amount is on lawsuits that have not reached settlement. There is no source of funding to pay this debt.</i>
Remaining Debt: \$68 million	<i>This amount consists of several smaller liabilities, including accrued compensated absences for employees. No source of funding is available to pay this debt at this time.</i>

***Recovery School District***

In June 2008, the RSD presented its 2008-2009 operating budget to BESE. As required by state law, the proposed budget was balanced, with \$194.5 million in total revenue and expenditures. This represents a decrease of nearly \$70 million from the previous year’s budget, due mainly to a reduction in the federal money previously available to help reopen schools after Hurricane Katrina.

Information in this section is based on the RSD FY 2009 budget documents, including budget adjustments presented to BESE in the summer of 2008.

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***The RSD’s proposed 2008-2009 budget shows \$194.5 million in total revenue and expenditures.***

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***Revenue***

The RSD’s budget for the current year shows a total of \$194.5 million in revenue. Nearly half of this revenue is from the Minimum Foundation Program (MFP), which combines state and local revenue. Another third comes from federal sources, including categorical programs targeting special populations or programs and one-time Restart funds related to hurricane recovery. The remainder of the RSD’s revenue comes from smaller local and state grants and from private grants.

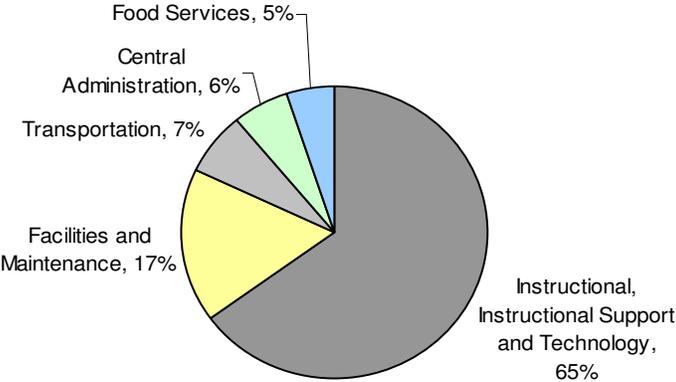
The revenue budget as adopted prior to the beginning of the fiscal year is an operating budget only and does not include millions of dollars in hurricane-recovery capital funds that the RSD expects to receive from Federal Emergency Management Agency and Community Development Block Grant. Capital expenditures will ultimately be rolled into the overall budget (because the RSD is not allowed to maintain separate operating and capital funds). However, for comparison to other school operators, the RSD budget presents a clearer picture of the costs of operating the schools as prepared without capital costs included.

Unlike the OPSB, the RSD does not have reserves to fill budget gaps. However, the district’s current budget does include a significant amount of revenue from a nonrecurring source, the federal program Immediate Aid to Restart School Operations. The 2008-2009 budget includes a total of \$43.5 million in Restart funding (and other one-time funding related to hurricane recovery) for the RSD and the schools it operates directly. This figure represents 22 percent of the district’s entire operating budget.

**Expenditures**

Figure 1 below shows the breakdown of expenditures by functional category according to the RSD’s budget documents.

**Figure 1: RSD Expenditures by Functional Category**



No detailed explanation is provided about how expenses were categorized, so it is difficult to evaluate the classification of expenses. However, a detail of expenditures by organization or location name is included in the budget documents. Based on the information in this detail, the way the RSD has classified its expenditures in the figure above seems reasonable.

**A significant proportion – 65 percent – of the RSD’s budget is devoted to instruction, instructional support, and technology.** This percentage mirrors the threshold that many education

reformers have adopted as a standard over the past several years.<sup>10</sup> This threshold is controversial, and meeting this standard depends greatly on how expenses are classified.

### ***Potential Challenges Facing the District***

#### **Transportation Costs**

One area where the RSD spends a relatively large amount of money is transportation. The amount of money that the district spends on transportation is up to three times higher than the state average. A major reason for these higher costs is that every school in the RSD is open to students living anywhere in New Orleans; that is, there are no “neighborhood” schools in the RSD at this time. Thus, the number of students who rely on school-district-provided transportation is higher and the distances that these students must travel is much greater than in most other school districts.

#### **Reliance on Non-Recurring Funds**

Under state law the RSD cannot run a deficit and cannot incur debt. Thus, the budgets for the last two fiscal years have been balanced. However, the district has relied on non-recurring, hurricane-related revenue to balance its budgets. The use of this revenue is one of the most important metrics to consider when evaluating the district’s financial health.

This year, the RSD budget includes \$182 million in recurring expenses and \$12.5 million in nonrecurring expenses. The RSD estimates that it will receive \$150.5 million in recurring revenues this year. The gap between recurring revenue and recurring expenditures is \$31.5 million. The district will use non-recurring revenue, primarily federal Restart funds, to balance this year’s budget.

If the district’s budget projections are correct, this year’s expenditures will leave \$10.5 million in unspent Restart dollars for future years. RSD officials estimate that the district will receive another \$15 million in reimbursement of Restart funds that were advanced from other accounts. In total, this would leave a reserve of Restart funds of approximately \$25.5 million at the end of this year. Assuming that the RSD were to spend the remaining \$25.5 million in Restart in FY 2010 and assuming that this year’s non-recurring expenses are not incurred in FY 2010, the district would be able to cover any budget gap next year. However, after that, the RSD would not have any Restart funds left. It would need to reduce its budget by approximately \$20 million from FY 2010 to FY 2011.<sup>11</sup>

## ***Charter Schools***

### ***Funding Overview***

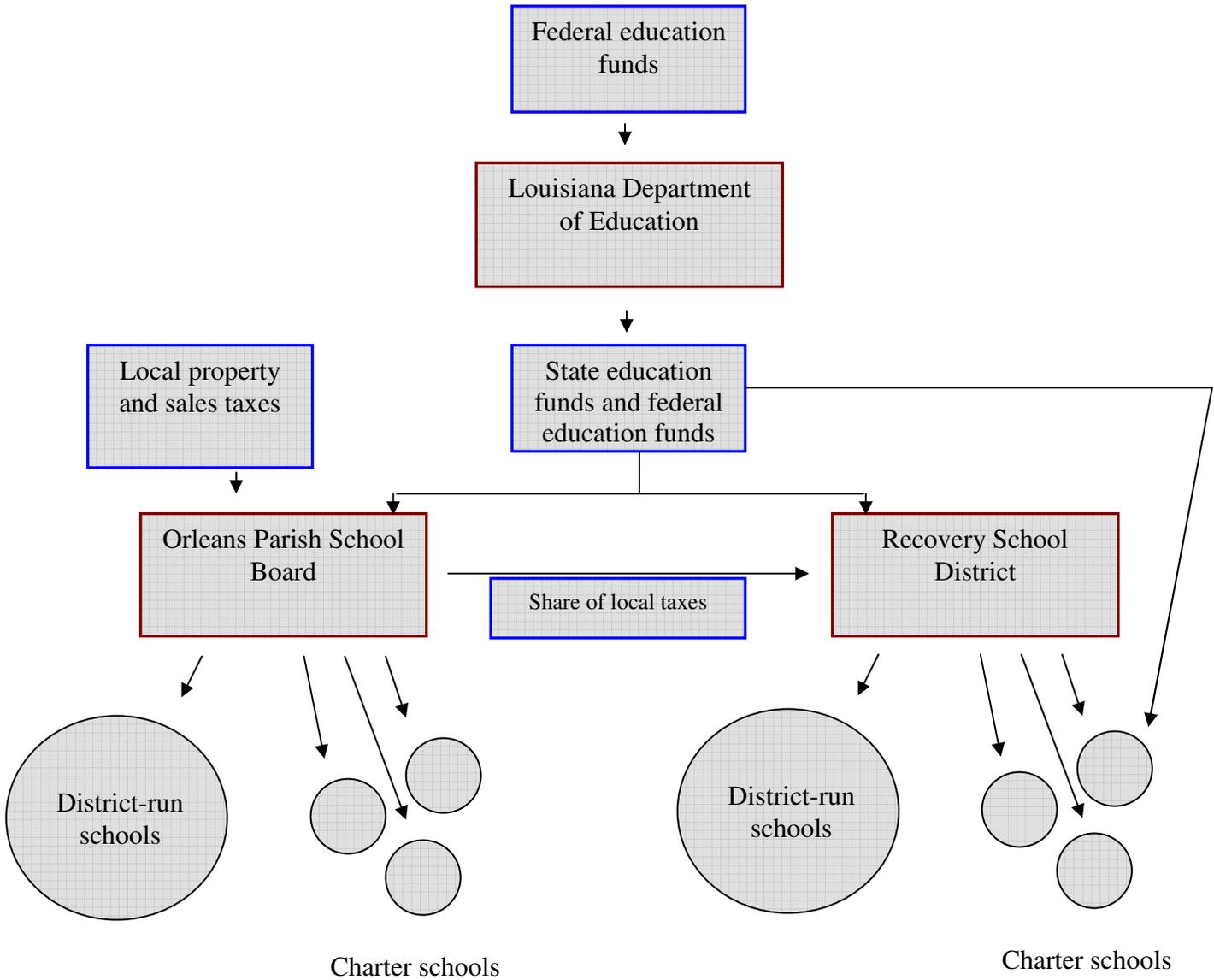
Since charter schools are part of a school district (either the OPSB or the RSD), they are entitled to per pupil funding under the Minimum Foundation Program (MFP). Figure 2 below shows how local, state and federal funds flow to charter schools.

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<sup>10</sup> For example, see USA Today: Toppo, Greg. April 10, 2006. States sign on to ‘65% solution’ for funding schools. *USA Today*. <[http://www.usatoday.com/news/education/2006-04-10-65-percent-solution\\_x.htm](http://www.usatoday.com/news/education/2006-04-10-65-percent-solution_x.htm)>

<sup>11</sup> This estimate assumes that revenue from other sources remains constant. As district enrollment changes, MFP funding will change.

**Figure 2: Flow of Revenue to Districts and Schools**



The MFP formula allocates equal funding for all public schools in Orleans Parish based on student population – whether OPSB or RSD, district-run or charter. However, due to variations in the laws and policies that govern school funding, the amount of funding that each school actually receives varies. The major differences in funding across charters is associated with revenues and expenditures related to debt service and capital outlay. In addition, the method by which the funds are distributed varies for different charter schools and is dependent on the authorizer.

OPSB Charters

The OPSB collects all local taxes for public schools in Orleans Parish. It also receives the state portion of funding for all of the schools under its purview. The district distributes local and state funds to

charter schools on the basis of the MFP formula developed by BESE. The amount of funding that OPSB charters receive is governed by two laws: one which allows for debt service and capital outlays to be deducted from the per pupil amount of funding a charter school receives and another which states that a charter school may not receive less than the per pupil amount calculated by the MFP formula. Because these laws are possibly contradictory, the Louisiana Department of Education (LDE) runs two different calculations to determine funding for OPSB charter schools and gives the charters the higher of the two amounts. In practice, this method results in OPSB charters receiving the full per pupil amount calculated under the MFP formula with no money withheld for debt service toward bonds issued prior to the creation of the charter schools. For the 2008-2009 school year, OPSB charter schools will receive \$7,600 per pupil under the MFP formula.

RSD Charters

For RSD charters, local funds flow through the RSD central office while state funds are distributed directly to the schools. The RSD receives local revenue from the OPSB and distributes this funding to all of its schools, including its charters. For state funds, RSD charters are considered separate LEAs by the state; therefore, they receive the state portion of their funding directly from the state on an individual basis according to the MFP formula. The amount of funding that RSD charters receive is based on a formula that deducts funds spent on facilities acquisition and construction.<sup>12</sup> For the 2008-2009 school year, RSD charters will receive \$7,390 per pupil under the funding formula.

\* \* \* \* \*

***Due to variations in the laws and policies that govern school funding, the amount of state and local funding that each charter school receives varies.***

\* \* \* \* \*

The differences in laws and regulations governing payments to charter schools result in inequities in funding for OPSB and RSD charters and place a financial burden on the OPSB. Because the debt service payments made by the OPSB are based on the amount of debt (not the amount of revenue), the district must make up for the fact that OPSB charters do not have funding withheld for debt service. Because this reduces the amount of revenue available to the OPSB to run its schools, in a way, the OPSB-operated schools are paying the OPSB charter schools' share of the debt.

In addition to MFP funding, charter schools receive funding from a variety of other sources. Most charter schools in New Orleans receive federal categorical funding targeted to specific populations, such as at-risk or special education students. The amount of categorical funding a school receives is based on the population of targeted students at that school. Some charter schools also receive contributions from private donors and foundations. Charter schools may also receive revenue from fees charged to students for voluntary activities. The amount of revenue from these other sources varies from school to school.

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<sup>12</sup> The OPSB is governed by state rules and regulations for local school boards. The RSD is not a local school board under state law. The RSD is a part of the Louisiana Department of Education and is governed by rules and regulations for state agencies, including regulations adopted by BESE to govern the RSD's relationship with its charters.

### ***Financial Analysis***

For this report the financial audit reports of several charter schools were reviewed, using the most recent reports available (FY 2007).

During the 2006-2007 school year, there were 31 charter schools operating in Orleans Parish. For this paper, financial audit reports from 16 schools were examined – 11 OPSB charter schools and 5 RSD charter schools. The schools were a mix of elementary, middle and high schools. Financial audit reports were downloaded from the website of the Louisiana Legislative Auditor. All reports that were available from this source for OPSB and RSD charters were downloaded. Reports from approximately six schools that were available from the Legislative Auditor were not included in this analysis because the format of the reports did not allow for meaningful comparison with other reports.<sup>13</sup>

To supplement data from the financial audit reports, information on revenues and expenditures for all LEAs in Louisiana was used. The LDE compiles tables<sup>14</sup> that show total revenue, total expenditures, and current expenditures (total expenditures minus costs related to equipment, construction, and debt service) for every LEA, which includes RSD charters schools. However, because these tables do not provide any detailed information on the revenues and expenditures, they were used as supplements to the financial audit reports only.

The use of financial audit reports for a paper such as this one has two major drawbacks. First, different schools use different auditors, so the format of the reports varies from one school to another. For example, as discussed below, approximately half of the reports reviewed for this report include expenditures categorized as “salaries and benefits” while the other half do not. These variations make it difficult to compare schools in some cases. Second, the financial audit reports, while the most readily available source of financial information for most charter schools, do not present a detailed, nuanced picture of a school’s financial health in many ways. It is difficult to draw any conclusions about how finances impact operations or about the long-term financial health of a school from financial audit reports alone.

These drawbacks notwithstanding, it is possible to get a general sense of the financial landscape of charter schools from the 16 reports analyzed here. The purpose of this paper is *not* to evaluate individual schools’ financials. Consequently, no school names are used in this section.

### ***Revenue***

Figure 3 below shows total revenue per pupil for the 16 schools reviewed for this paper. Eight of the sixteen schools report total revenues of between \$8,000 and \$10,000 per pupil. One school is below this range and seven are above it. This broad range of revenues per pupil can also be found in the data available from LDE. For 2006-2007, revenue per pupil in RSD charters<sup>15</sup> ranged from \$7,200 to \$17,800. The broad range of revenue indicates that total revenue per pupil could be an important equity metric across schools.

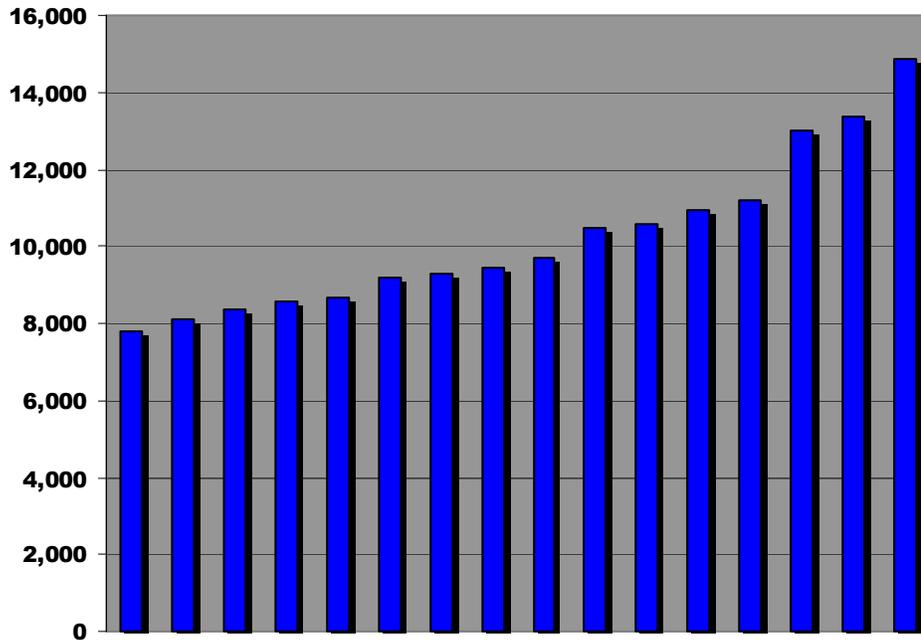
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<sup>13</sup> It is not clear why some charter schools did not have audited financial reports available on the Legislative Auditor’s website. Likewise, it is not clear whether those reports that were available comply with the standards established by the Louisiana Department of Education.

<sup>14</sup> Tables are available on LDE’s website at <http://www.doe.state.la.us/lde/finance/1793.html>.

<sup>15</sup> Because OPSB charters are not separate LEAs, their revenues and expenditures are not presented separately from the OPSB as a whole in the LDE data.

**Figure 3: Total Revenue Per Pupil at Select OPSB and RSD Charter Schools**



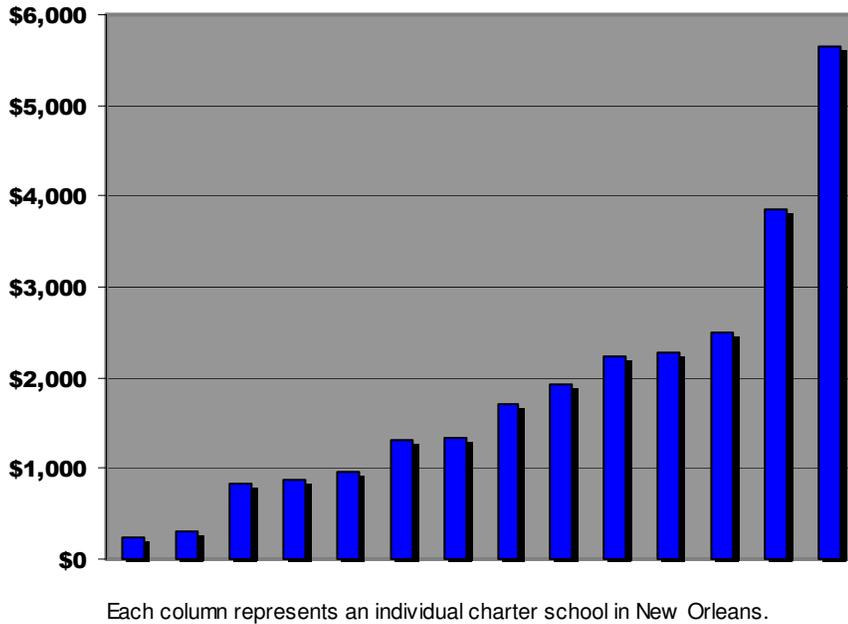
Each column represents an individual charter school in New Orleans.

As discussed above in the Financial Overview, charter schools receive funding from a variety of sources: local, state, federal and private. All public schools in Orleans Parish are entitled to roughly the same amount of funding from local and state sources. In actuality, however, charter schools receive different amounts of funding per pupil. Within the OPSB, all charters receive the same amount of state and local MFP funding as each other. The amount they receive is dictated by state law, which states that these charters will receive no less than the per pupil amount received by the school district in which the charter school is located. Within the RSD, charter schools receive differentiated amounts of funding based on their student populations. Because the RSD is a part of the LDE and not a local school board, it is legally able to provide differentiated funding to its charters. The district provides a base level of funding for students without special needs and three other levels of funding for special education students, depending on the student's needs.

Because much of the variation in revenue across schools is driven by federal and private revenue, these sources were examined more closely. Fourteen of the 16 schools reviewed for this paper include a line item showing federal revenue in their financial reports. Of these, 10 also include a schedule of expenditures from federal awards that shows the specific federal grants received. The expenditure schedules showed that these schools received from three to 10 grants each, covering 13 different federal programs. All 10 schools received funding from one program in particular: Title I – Improving the Academic Achievement of the Disadvantaged. Beyond that, the number and type of grants received varied from school to school.

Figure 4 below shows federal funding per pupil at several charter schools. The amount of federal funding per student indicated in the financial reports varies significantly across charter schools – from \$236 to \$5,651 per pupil. Again, this broad range can be found in the data available from LDE, which shows federal revenue per pupil at RSD charters ranges from \$0 to \$4,800.

**Figure 4: Federal Revenue Per Pupil at Select OPSB and RSD Charter Schools**



The two schools receiving the most federal revenue per pupil each received a substantial amount of funding related to restarting school operations after Hurricane Katrina during FY 2007. If these funds are subtracted from the schools’ revenues, the range of funding across all schools narrows – from \$236 to \$2,490 per pupil.

There are several reasons that the amount of federal funding per pupil would vary from school to school. First, categorical funding is based on the number of students at a school that meet a certain criteria (e.g., low household income). Also, some programs are competitive and only schools that submit successful applications receive funds under those programs. Lastly, charter schools are eligible to receive federal assistance to help with planning and start up activities during their first three years, so newer charter schools are eligible for programs that established schools are not. It is worth noting that the amount of federal funding per pupil is not directly tied to the number of grants received by each school. Of the 10 charter schools that clearly identify individual grant programs in their financial reports, the school receiving the fewest grants (3 grants total) received more funding per pupil than the school receiving the most grants (10 grants total).

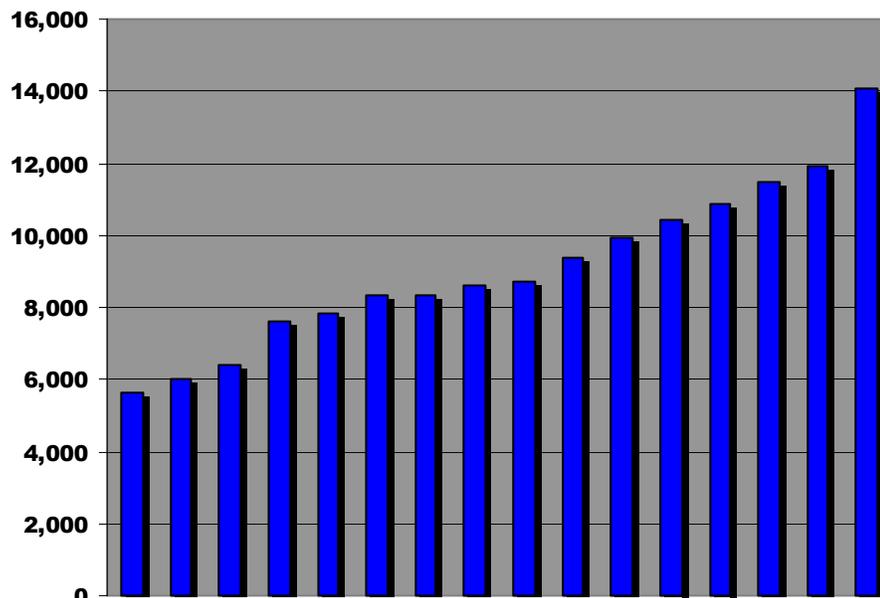
Although charter schools also receive funding from other sources such as donations and fee revenue, most rely primarily on local, state, and federal revenue. At the 14 charter schools that clearly identify revenue from the MFP and federal grants in their statement of activities, these funding sources account for more than 85 percent of all revenue for 12 schools and more than 78 percent of all revenue for all

14 schools. At four schools, these funding sources account for 98 or 99 percent of all funding. The financial audit reports reviewed for this paper do not provide any details about the donations, fees, and other sources of revenue at the schools that receive them.

**Expenditures**

All 16 schools examined for this paper report total expenditures for 2006-2007 (Figure 5). Total expenditures per pupil ranged from approximately \$5,600 to \$14,000. Five schools had expenditures below \$8,000 per pupil. Five schools had expenditures above \$10,000 per pupil. As with revenue, data available from LDE shows similar variation in expenditures across RSD charters. Total expenditures in 2006-2007 ranged from \$3,700 to \$12,500 per pupil. Current expenditures (total expenditures minus costs related to equipment, construction, and debt service) ranged from \$3,600<sup>16</sup> to \$12,400 per pupil.<sup>17</sup>

**Figure 5: Total Expenditures Per Pupil at Select OPSB and RSD Charter Schools**



Each column represents an individual charter school in New Orleans.

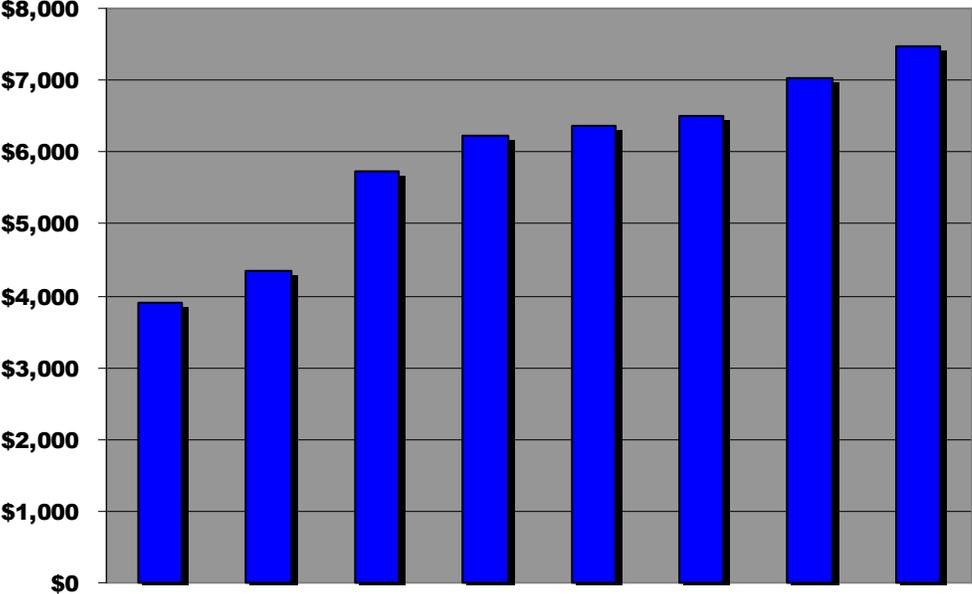
The audited financial reports of all schools include some breakdown of expenditures by type. However, the reports use different formats in some cases. For eight of the schools, the breakdown of expenses lists “instructional” expenses, including regular education programs, special education programs, and other instructional programs. Total instructional expenses at these schools range from a low of \$4,000 per pupil to a high of \$6,300 per pupil. The other eight schools do not include a

<sup>16</sup> The school with the lowest current expenditures per pupil is an outlier. The second lowest school had current expenditures of \$6,500 per pupil.

<sup>17</sup> As a comparison, LDE data show that current expenditures for 2006-2007 were \$15,300 per pupil for the OPSB and \$18,300 for the RSD.

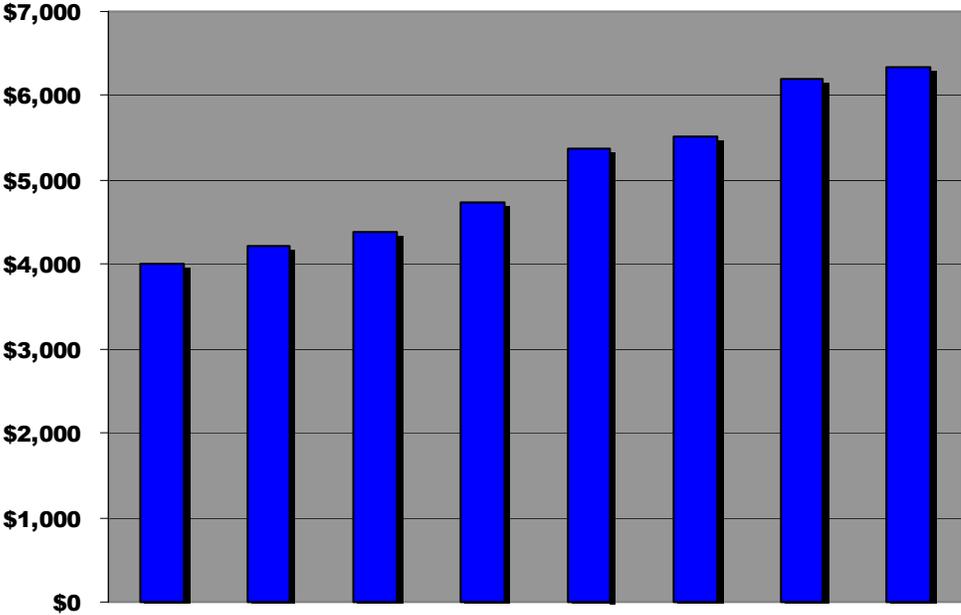
breakdown of instructional expenses; however, they do break out expenditures on salaries and benefits. Combined expenditures on salaries and benefits ranged from a low of \$3,900 to a high of \$7,500.

**Figure 6: Salary and Benefit Expenditures Per Pupil at Select OPSB and RSD Charter Schools**



Each column represents an individual charter school in New Orleans.

**Figure 7: Total Instructional Expenditures Per Pupil at Select OPSB and RSD Charter Schools**



Each column represents an individual charter school in New Orleans.

### ***Overview of Fiscal Health***

Of the 16 schools included in this analysis, seven had total expenses in excess of total revenue for 2006-2007. Of these, three had deficits that were less than 5 percent of total revenues; two had deficits that were between 5 and 10 percent of total revenue; and two had deficits that were between 10 and 20 percent of total revenue.

All of the schools that ran deficits were able to transfer money from reserve accounts to cover their expenditures. Charter schools have differing amounts of reserves to help close budget gaps. The fourteen schools that list unrestricted net assets in their financial audit reports have an average of five months' worth of operating expenses in reserve. The range of unrestricted net assets was from a low of one month's worth of operating expenses to a high of 15 months.

Based on the information in the financial reports, it is not possible to tell why certain schools ran deficits. It is possible that some of these schools faced higher expenses in school year 2006-2007 due to start up costs. It is also possible that some schools with deficits will be able to bring revenue and expenses into line over the next couple of years. For example, a school could recruit additional students, thereby increasing total revenue while decreasing average cost per student.

A school with sufficient reserves is potentially able to run deficits for a short time without jeopardizing the long-term success of the school. However, schools with systematic spending problems may eventually be forced to close. It is not possible to know how many charter schools in this analysis or throughout New Orleans face serious financial difficulties on the basis of the available data.

## RECOMMENDATIONS

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Based on the information contained in this report, we present recommendations that relate to the following:

- ways to remove barriers to creating a detailed picture of school finances in New Orleans;
- improvements that should be made to the rules that govern school financial operations; and
- changes that school operators need to make to their financial management strategies.

### **Increase transparency**

School districts and states across the country are implementing programs to promote transparency and financial accountability. Under these programs, school districts report on how tax dollars are being spent, how their financial decisions conform to best practices, and how expenditures relate to their strategic plans. In the specific case of school finances in New Orleans, the first steps toward more transparency are to increase both availability and comparability of financial data across districts and schools. Two recommendations relate to transparency:

- **Availability of financial data for all operators should be improved** – Budgets for the current fiscal year and year-end financial statements from previous years for all operators should be readily available. The districts should make budget documents that include school-level budgets accessible.<sup>18</sup> Charter school authorizers should also require that charter schools make budget documents available publicly, preferably from one central source.
- **Comparability of financial data across operators should be improved** – The two districts (the OPSB and the RSD) do not present financial information in the same format. For example, they use different object codes/line items for expenditures. For charter schools, financial audit reports, the most readily available source of financial information, are prepared by different auditors, who use different formats in reporting revenue and expenditures. These variations make it difficult to compare data across operators. Comparability of data could be improved through the inclusion of additional information in budgets and year-end financial statements, such as schedules and budget narratives that describe how expenditures are classified.

### **Revise policies and laws that address how funds are shared across schools and districts**

Currently, the rules that govern the flow of funds between districts and between districts and charter schools prohibit the fair distribution of some revenues and expenses. In particular, the OPSB continues to face costs from when it was the sole operator of schools in New Orleans. However, the rules that dictate how funds are shared by school operators prevent the sharing of these costs in some cases.

Two recommendations relate to the rules that govern funding of schools:

- **Legacy costs, or costs incurred when all public schools in New Orleans were part of the same district, should be distributed on a per pupil basis across all public schools** – Today, the OPSB incurs costs for health care for retirees and workers' compensation claims from when all schools were part of the same system. Also, the OPSB must pay legal costs related to law suits that were filed against the larger system. Because these costs were incurred by all public schools in New Orleans, these schools should contribute toward paying them.

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<sup>18</sup> At the time this paper was written, OPSB had its current year budget with school-level budgets posted on its website.

- **Costs related to debt service from bonds issued by OPSB when it operated all public schools in New Orleans should be distributed across all public schools** – A decade ago, the OPSB issued general obligation bonds to raise funds for capital needs of schools in New Orleans. The revenue from these bonds was used for public schools throughout New Orleans, and all schools should contribute toward their repayment.

### **Ensure sustainable financial management**

Based on the analysis in this paper, it is clear that many school operators in New Orleans will need to examine their basic financial management strategies in the near future. Additionally, school operators face a significant financial challenge related to facilities in the coming years.. Two recommendations relate to financial management decisions of school operators:

- **All operators should adopt budgets that bring revenue and spending into alignment** – For the current year, OPSB has taken funds out of reserves to balance its budget, and the RSD has relied heavily on one-time hurricane-related funds to balance its budget. Additionally, in the past some charter schools have used reserves to balance their budgets. All operators should begin to bring revenue and spending into alignment as quickly as possible. In cases where a legitimate case can be made for using reserves or other one-time funds, school operators should prepare a multi-year plans to bring revenue and spending into alignment.
- **Revenue sources for ongoing capital needs related to maintenance and repairs need to be identified** – In reviewing the budget documents of school operators in New Orleans, one item is missing – a fund for the ongoing capital needs of facilities. School operators do not have adequate funds for maintenance and repairs set aside because no dedicated source of such funds is available to public schools in New Orleans today. Without a dedicated source of revenue, it is difficult for schools to fund such needs. However, deferring maintenance will quickly undermine the improvements made to school facilities under the School Facilities Master Plan for Orleans Parish. It is important that school operators and the community work together to find a solution to this problem.

## CONCLUSION

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Both districts have used non-recurring funds to close gaps in their budgets this year; additionally, a number of charter schools also used reserves to balance their budgets in 2006-07, the most recent year for which data was available. It is unclear from available data how much trouble the districts and charter schools will have in bringing their expenditures in line with revenues. It is possible that some schools will see significant cuts in spending in a short period of time as constraints force operators to become more financially disciplined.

Substantial variation in revenue and expenditures per pupil exists across public schools in New Orleans. Current expenditures in 2006-07 ranged from \$3,600 to \$18,300 per pupil across the schools for which the LDE makes school-level data available.<sup>19</sup> Even allowing for disparities related to hurricane recovery and the opening of new schools, this wide range of expenditures raises serious questions about equity.

In the coming years, it may be possible to undertake a more detailed analysis of public school finance throughout the city. Such an evaluation would require more detailed information about school revenues and expenditures. It will also likely be easier to undertake such an analysis once the majority of one-time revenues related to hurricane recovery have been spent and school operators are relying on funds that do not vary much from year to year. Future evaluations of school finances could address issues such as

- whether funds are following students,
- whether there are patterns to any funding inequities, and
- whether funds are being spent in accordance with a strategic plan.

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<sup>19</sup> See Expenditures under the section on charter schools for more details.



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