



# The State of Public Education in New Orleans: School Finances

March 2011



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## The Scott S. Cowen Institute for Public Education Initiatives at Tulane University


The Cowen Institute is an action oriented think tank that informs and advances research-based policy, legislative, and programmatic solutions to eliminate the challenges impeding the success of K-12 education in New Orleans and beyond. Our work is focused in the following areas:

-  Applied Research
-  Public Policy
-  University-Based Initiatives
-  College Readiness Programs

### Applied Research at the Cowen Institute

We serve as an objective voice to education leaders, policymakers, the media, and the public about what is taking place in public education in New Orleans—particularly in the areas of accountability, finance, facilities, and governance—by disseminating relevant data and research. This publication, and others released in the past, can be found at <http://education.tulane.edu>.

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Since the Scott S. Cowen Institute for Public Education Initiatives opened its doors at Tulane University in 2007, we have published *State of Public Education in New Orleans* reports to provide an ongoing chronicle and assessment of education reform efforts in the city. This series aims to provide journalists, policymakers, community leaders, and the public with information, context, and thoughtful examination of the reform efforts underway in the K-12 public education system in New Orleans.

In the latest report from this series, the Cowen Institute attempts to decipher the K-12 public education financial landscape in New Orleans. This paper describes the financial circumstances of public schools in New Orleans by providing a “bird’s eye” view of revenues and expenditures, and addresses the issues associated with a multi-district system of schools.

The *State of Public Education in New Orleans: School Finances* report precedes a series of more detailed studies that will analyze the financial challenges facing public education in New Orleans today. Additional analysis is necessary to understand the financial consequences of independent and/or networks of schools and the effect of the state’s MFP formula on Orleans Parish. By providing more in-depth analyses, the Cowen Institute aims to inform and advance solutions to eliminate the challenges impeding the success of K-12 public education in New Orleans and beyond.

## Executive Summary

The operating environment for the K-12 public schools in New Orleans has stabilized significantly in the past few years. The amount of one-time revenue related to hurricane recovery, and consequently the amount of expenditures from this revenue, is decreasing. Student populations are beginning to stabilize and proportionately fewer schools are going through the expensive start-up phase. Overall, the financial condition of public schools in New Orleans is becoming more representative of how it will be in the coming years. Nonetheless, there continue to be challenges in gathering and analyzing financial data.

With two districts and over 40 independent school operators, the lack of consistency, clarity and transparency in financial reporting is a major

challenge. While the Orleans Parish School Board (OPSB) operates or oversees less than 20 percent of the city’s public schools, it continues to be the taxing agent for all public schools in Orleans Parish and is responsible for debt management. Charter management organizations, which are granted contracts by either the OPSB or the Louisiana Board of Elementary and Secondary Education (BESE) to operate schools, have responsibility for most aspects of operations, staffing, and financial management in their schools.

In addition to a significant time lag in the availability of financial data, there is very little consistency of reporting over time and among the two districts (OPSB and RSD) and the individual charter schools. Comparisons are difficult because of the wide variety of formats, accounting practices, and reporting requirements implemented by each entity.

Despite these difficulties, it is clear that the range of revenues and expenditures across schools is large. For example, for the 2008-09 school year, the school at the 90<sup>th</sup> percentile in revenues per pupil received \$3,000 more than the school at the 10<sup>th</sup> percentile. As a whole, per pupil revenues and expenditures for charter schools are significantly lower than those reported for the OPSB and RSD. Per pupil operating revenues and expenditures for the schools operated by the OPSB have fluctuated only slightly over the past three years. On the other hand, per pupil operating revenues and expenditures for the schools directly operated by the RSD have been declining over the past three years. Looking at indicators to measure the fiscal health of charter schools, there are also significant variances among schools, though the more established and larger schools are generally in a better financial position than the newly established ones.

In the post-Hurricane Katrina public education landscape, it is critical that financial missteps that characterized the pre-Katrina system be avoided at all costs. Financial transparency allows stakeholders to see how individual schools, as well as the collective system of schools, use their resources in the pursuit of a quality education for students. Financial transparency requires that information be available in a timely manner and updated frequently, that information be easy to access, and that data be presented in a way that allows for comparison among

districts, individual schools and over time. As one-time federal funds are expended and philanthropic dollars are increasingly scarce, it is imperative that parents, educators, policymakers, and taxpayers understand how money is being spent to ensure the greatest return on investment. We have begun working with the Louisiana Department of Education on the need for transparency created by the new operating environment in New Orleans and are optimistic that the department will make changes to policies and procedures that will benefit all stakeholders.

## Introduction

Two years ago, the Scott S. Cowen Institute for Public Education Initiatives released a brief - the first of its kind - that examined the financial circumstances of all K-12 public schools in post-Hurricane Katrina New Orleans. At that time, we presented 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 two districts and the numerous individual charter schools in New Orleans. This brief, which is part of our *State of Public Education in New Orleans* series, looks at the same aspects of school finances two years later.

The operating and financial environment for public schools in New Orleans continues to be complex. In total, there are two districts and over 40 different school operators in New Orleans today. These districts and operators are often governed by varying laws and regulations and have their own budgeting and accounting systems. As the analysis that follows shows, the lack of consistency, clarity and transparency that we identified as a major challenge two years ago continues to be a key feature of school finances today.

In this report, we will trace the sources of revenue that support public schools in New Orleans and analyze how it has been allocated and spent; highlight some of the financial issues arising from the complexities faced by the various school operators and districts; and provide recommendations on how to eliminate the barriers to sound financial analysis. In addition, this brief attempts to provide details on key indicators of financial health for all school operators in New Orleans. Developing a picture of

## Data Sources

The charter school financial data used in this report comes from two sources: independent audit reports commissioned by charter school organizations and revenue and expenditure reports released by the Louisiana Department of Education (LDE). Audit reports are produced by every charter management organization (some of which manage more than once school) and cover charter school revenues, expenditures, and balance sheets. However, independent auditors have some flexibility in how they report on different areas of revenue and expenditures, making some comparisons across audit reports difficult. Revenue and expenditure reports from the LDE are more standardized, but reports are only available for charter schools that are considered their own Local Education Agency. As a result, this excludes all of the charter schools under the Orleans Parish School Board (OPSB), whose finances are combined with the district’s finances in state reports. Both types of reports are released well after the fiscal year they cover, so the latest data available at the time of writing was for the 2008-2009 fiscal year.

As of early March 2011, only approximately 75 percent of charter school audit reports for 2009-2010 were available on the Legislative Auditor’s website, and many of these were posted to the website during the month of February. It should be noted that this is in keeping with submission requirements established for non-profits. However, because a full set of data is not available, it was not possible to include information from these reports in this analysis. The Cowen Institute hopes to conduct an analysis of these data in the near future.

Financial data for the two school districts in New Orleans - the OPSB and Recovery School District (RSD) - come from state revenue and expenditure reports as well as budgets and year-end financial reports produced by the districts. Since LDE revenue and expenditure reports are not available after the 2008-2009 fiscal year, we use these district-created reports for the 2009-2010 and 2010-2011 fiscal years. However, district budgets report items differently from one another and are not necessarily in sync with the state’s reporting methods. As a result, direct comparisons between districts based on their own budget documents can be difficult. Additionally, budgets merely state anticipated revenues and expenditures. Actual figures may vary as circumstances change throughout a school year.

these measures is central to understanding the efficiency and sustainability of the schools serving our city's students.

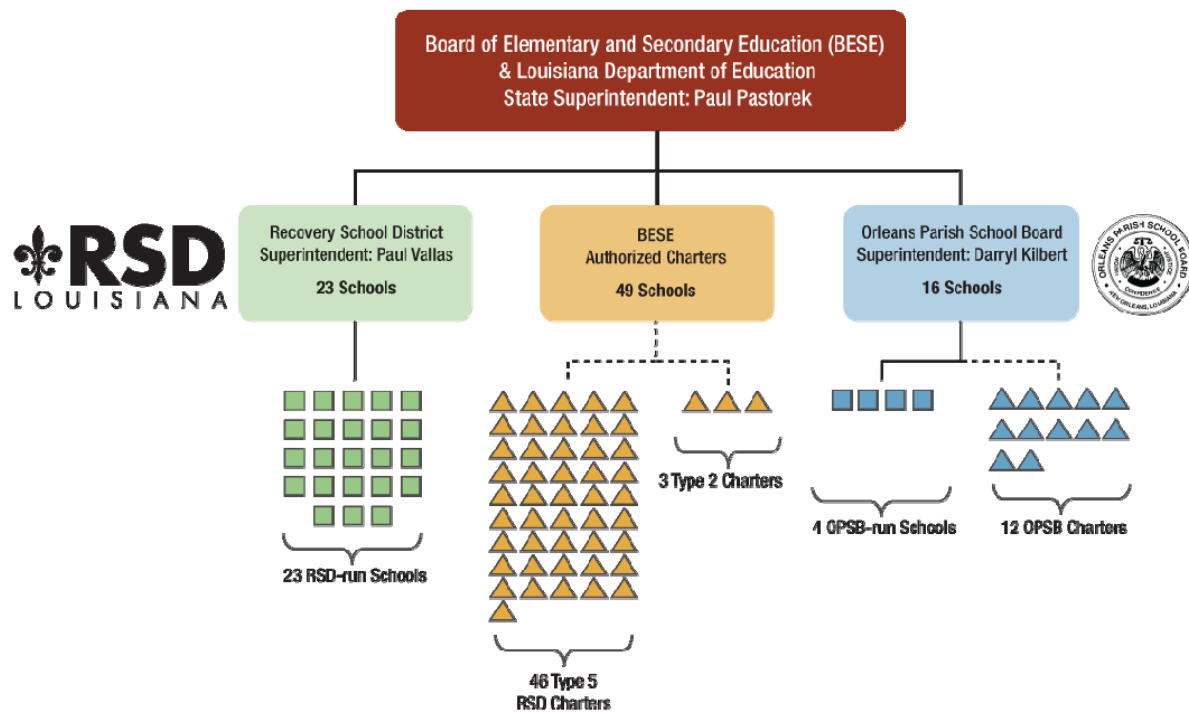
## Multiple School Districts and Operators

In the 2010-2011 school year, there are 88 public schools operating in New Orleans. The Orleans Parish

School Board (OPSB) is responsible for 16 schools: four district-operated schools and 12 charter schools. Under the auspices of the state-run Recovery School District (RSD), there are 23 schools that are operated by the RSD central office and 46 charter schools that are authorized by the state Board of Elementary and Secondary Education (BESE). In addition, BESE serves as the authorizer for three independent charter schools in the city. Together, these schools serve approximately 39,900 students in grades K-12.

### 2010-2011 Governance Structure

Total: 88\* Schools & 39,877 Students



\* This number does not include alternative and juvenile detention schools.  
Source: Louisiana Department of Education, October 2010

## Orleans Parish School Board

Historically, the Orleans Parish School Board (OPSB) operated all public schools in New Orleans. This situation changed with the creation of the state-run Recovery School District (RSD) in 2003 and its expansion in 2005, which resulted in the transfer of most public schools in Orleans Parish to the RSD. This transfer of schools due to academic crisis has resulted in a significantly smaller district overseen by the OPSB. In the 2004-2005 school year, the OPSB operated approximately 120 schools. Today, it is

responsible for 16 schools: 4 district-run schools and 12 charter schools.<sup>1</sup>

Public schools in New Orleans lost students at a steady rate during the decade before Hurricane Katrina. Following Hurricane Katrina and the state

<sup>1</sup> In addition, the OPSB partners to operate the Mahalia Jackson Early Childhood Center, which serves children from birth to five years old. It also provides teachers and administrative support for the Youth Study Center and the Alternative Learning Institute, facilities for youth in the juvenile justice system.

takeover of most OPSB schools in 2005, enrollment in schools governed by the OPSB was reduced substantially. As of October 2010, there were 10,600 students in OPSB direct-run and charter schools, an 87 percent reduction from the number of students served a decade and a half ago. The reduction in the number of students is even more striking if only the four schools that are directly operated by the board are considered. Currently, less than 3,000 students are enrolled in one of the four district-run schools. This is only 3 percent of the number of students in OPSB schools a decade and a half ago.

Despite the emergence of the RSD and charter schools, the OPSB continues to have 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. The schools under the authority of the RSD (including charter schools) and the charter schools overseen by the OPSB are entitled to local tax revenue but do not have authority to levy taxes; therefore, the OPSB levies taxes on behalf of all schools and then distributes this revenue equally 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 over \$350 million, including approximately \$250 million in bond debt from bonds issued in the 1990s. The OPSB levies a specific millage for this debt and all schools contribute the revenue from this millage to debt payments.

### Recovery School District

The Louisiana State Legislature created the Recovery School District (RSD) in 2003 to take over individual failing schools. In the first two years after the RSD was created, a handful of failing public schools in New Orleans were transferred to it. In November 2005, following Hurricane Katrina, the legislature passed a new law making it easier to move large numbers of failing schools into the RSD. Shortly after, over 100 schools were transferred from the OPSB to the state-run RSD, leaving fewer than 20 schools in the control of the OPSB. Not all of the schools transferred to the RSD after Hurricane Katrina reopened due to a smaller student population.

The RSD faces a unique challenge in the operation of its schools compared to other operators in New Orleans. OPSB schools and RSD charter schools are able to limit the number of students they serve; however, the RSD must serve any student who needs to enroll in a public school in New Orleans. In the past, this has made it difficult for district officials to accurately estimate the number of students who will be in district-run schools in the coming year, making budgeting difficult.

Within the Recovery School District today, there are 23 schools that are operated by the RSD and 46 charter schools that are authorized by the state Board of Elementary and Secondary Education (BESE).

### Charter Schools

Currently, there are 61 charter schools in Orleans Parish operated by 40 charter school management organizations. While some organizations run a single charter school, others operate multiple schools. Charter school operators have significant flexibility in most aspects of operating their schools, including developing school budgets and managing staffing decisions. However, charter schools are still financially tied to their districts in that they receive some funding through them.

Charter schools are public schools run by independent operators under a performance agreement with either the local school board or BESE; they are held to the same accountability standards as traditionally operated public schools. In Louisiana, there are five different types of charter schools that differ based on funding sources, authorizer, and other factors. For financial purposes, Type 1, 3, and 4 charter schools are considered part of the OPSB. Charter schools within the Recovery School District, which are categorized as Type 5, are authorized by BESE. The schools in the remaining category, Type 2, are not part of a school district.

As of October 2010, RSD and OPSB charter schools served a total of 27,200 K-12 students, or approximately 70 percent of students in those two districts. RSD charter schools served 19,400 students, over two-thirds of all RSD students. OPSB charter schools served nearly 7,800 students, nearly 75 percent of all OPSB students. The three charter

schools authorized directly by BESE that are not in either district served a total of 1,075 students.

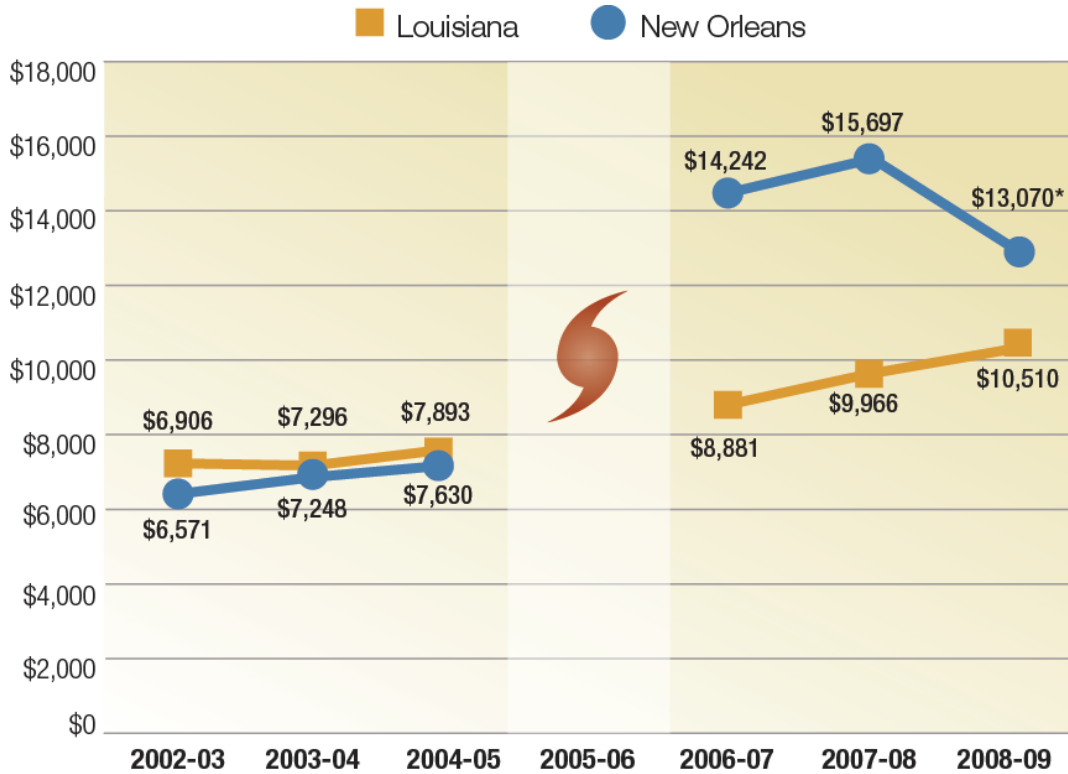
## The Financial Landscape of Public Schools in New Orleans

### Pre- and Post-Katrina Public Education Spending

Public school spending per pupil in New Orleans has increased significantly as a result of Hurricane

Katrina due to an influx of one-time federal funds. As the chart below shows, per pupil current expenditures (that is, all expenditures except debt service payments and capital expenditures) in New Orleans generally mirrored the Louisiana average in the years before the storm. In the years after Katrina, public school current expenditures in New Orleans far outpaced the state average. The chart below represents current expenditures for all public schools in New Orleans and in Louisiana before and after Katrina (for the most recent years available).

### Reported Current Expenditures per Pupil for All OPSB and RSD Schools



\* The expenditure data for New Orleans schools for 2008-2009 excludes all expenditures using one-time hurricane-related revenue for the RSD. If these expenditures were included, the per pupil figure shown above would be higher by approximately \$1,000 per pupil based on data in the district's year-end financial report.

Financial data for public schools in New Orleans is available from a variety of sources. The two districts in New Orleans– the OPSB and the RSD – present fiscal year budgets to their respective boards for adoption each year. These budgets are made publicly available prior to adoption on their respective websites.

Local school boards, including the Orleans Parish School Board, are required to submit an audit report each year to the state Legislative Auditor. In addition,

all charter schools in New Orleans are required to submit audit reports to the Legislative Auditor after the end of each fiscal year. The RSD's accounts are audited as a part of the State of Louisiana, but the district's annual fiscal report is not audited by the Legislative Auditor separately. Audit reports for schools and school boards are available on the auditor's website at <http://www.lla.state.la.us>.

The LDE collects financial data from all districts and from all charter schools that are considered

financially separate from a district (i.e., Type 2 and Type 5 charter schools, which are authorized directly by BESE). Districts and these charter school types submit an Annual Financial Report (AFR) after the end of every fiscal year,<sup>2</sup> and the LDE publishes reports with the information included in them. Because they are not considered financially separate from their districts, financial information for Type 1, 3 and 4 charter schools (which are considered part of local school boards) is included in the AFR for their respective districts. Therefore, it is not possible to separate the financial information for these charters from their districts' in the data released by the LDE.

It is important to note that there are inconsistencies in the reporting of data over time. Therefore, the analysis of RSD financials in this paper relies on data that is not uniform across all years analyzed. In the 2006-2007 and 2007-2008 school years, the LDE included one-time federal hurricane recovery funds in its calculation of the RSD's current expenditures, as it did for every other hurricane-impacted district that received these funds, including the OPSB. For reasons that are not clear, the LDE did not include these funds for the 2008-2009 RSD current expenditure calculations, the most recent year available, even though the department continued to include one-time hurricane recovery funds in their calculations of current expenditures for every other district. As a result of the LDE's exclusion of recovery funds, 2008-2009 public school current expenditures in the RSD are almost certainly under-reported. The LDE's exclusion also renders it impossible to make valid comparisons between RSD and the spending and expenditures in other districts relying solely on data from the LDE. The Cowen Institute sent a formal request to the LDE in November 2010 asking that this be corrected; however, a revised report has yet to be released.

To gain a comprehensive picture of school finances in New Orleans, this paper combines information from each of these sources (independent audit reports and LDE revenue and expenditure reports). Specific information about the data sources used and the limitations of each is included at the beginning of each of the following sections.

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<sup>2</sup> In Louisiana, the fiscal year for all districts and schools runs from July 1 to June 30.

## Financial Data for the Two Districts

The OPSB and the RSD report their finances directly to the LDE every year. However, there are three major issues with the most recent available financial data for these school districts. The first issue is that data are not available in a timely manner. The most recent fiscal year for which data are available is 2008-2009. No information is available from the LDE for the 2009-2010 fiscal year; additionally, while the LDE collects budgets for the current fiscal year from districts (as well as Type 2 and Type 5 charter schools), there is no public release of this data. Moreover, the department was slower to release data for 2008-2009 than it has been in the past. The LDE did not release financial data for that fiscal year, which ended June 30, 2009, until over 14 months later. The second issue is related to reporting consistency. The data for 2008-2009 include one-time hurricane-related revenue for all districts that received such revenue - *except* for the RSD. Thus, it is impossible to use this data to make a valid comparison between the OPSB and the RSD. The third issue is that data for the RSD were not broken out by expense group as they were for every other district.

At the time of this writing, nearly 20 months after the 2008-2009 fiscal year ended, there is no complete or comprehensive picture of the RSD's finances available from the LDE. The omission of recovery funds from the state report render it difficult to make useful comparisons between districts in the same year and across years.

Another difficulty with using the data collected by the state to analyze the districts' finances is that OPSB's charter schools are not considered financially separate from the district. This is true for all Type 1, 3, and 4 charter schools in Louisiana. It is not possible to separate revenues and expenditures for OPSB traditional schools from those for OPSB charter schools in the data released by the LDE. Therefore, the data from LDE cannot be used to analyze individual Type 1, 3, or 4 charter schools or the OPSB by itself.

Due to these problems with the data released by the LDE, this section relies primarily on the budgets adopted by the school districts at the beginning of the

fiscal year and year-end financial reports where appropriate. A benefit to relying on budgets is that information about the current fiscal year is included in the following analysis.

## Orleans Parish School Board Finances

Each year, the district administration presents a budget to the OPSB for approval prior to the start of the fiscal year. The budget can be amended through the adoption of a budget amendment by the board. Most of the budgets from previous years are available on the school board's website at <http://www.nops.k12.la.us/pages/budgets>.

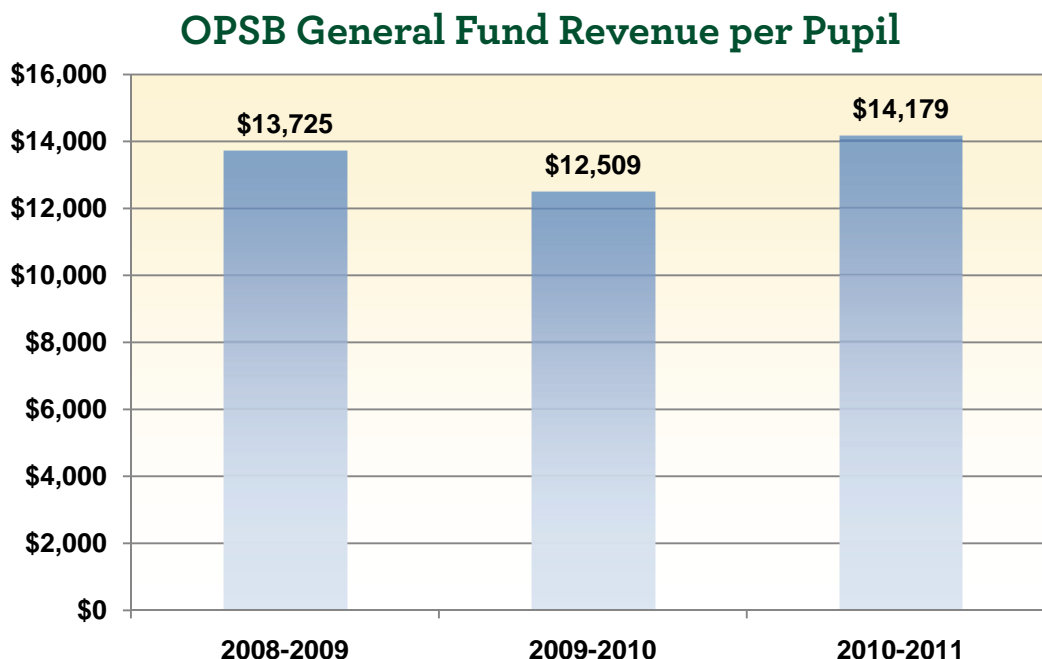
The OPSB's finances are more difficult to analyze than those of the RSD or those of RSD charter schools in one important way: OPSB's charter schools are not their own local education agencies (LEAs). This means that OPSB charter schools receive their funds through the school district rather than directly from the state or federal government. As a result, the charter schools' finances are often not reported separately, but rather they are rolled up together with the district's. In order to exclude charter school finances, the analysis below focuses solely on the OPSB's general fund budget. The general fund budget does not include funds that are passed through to

charter schools. It includes expenditures as well as state and local revenue for schools directly operated by the OPSB.

It is important to note that the general fund budget also includes system-wide expenditures, including costs that have carried over from before Hurricane Katrina and the subsequent state takeover. (See Important Issues below for a fuller discussion of legacy costs.) The presence of these legacy costs in the general fund budget drives up the per pupil revenue and expenditure figures. At the same time, the per pupil figures below do not include federal funds for any schools; the figures reported here are lower than they would be if federal funds were included in the analysis. It is not clear whether the net effect of these two factors is a per pupil amount that is higher or lower than it would be if these factors were removed from or included in the calculations respectively.

### Revenues and Expenditures

The Orleans Parish School Board's (OPSB) operating revenues have fluctuated slightly over the past three years. In 2008-2009, the district had general fund operating revenues of \$13,725 per pupil. For 2010-2011, the district anticipates general fund operating revenues of slightly more at \$14,179. The chart below shows the OPSB's general fund operating revenues on a per pupil basis for the past three years.



Source: OPSB budget documents

Revenue per pupil represents more than merely the Minimum Foundation Program (MFP) formula allocation. The OPSB has other sources of revenue outside of the MFP, including the following line items: revenue from charter schools and the RSD (related to services provided by the districts and revenue from the RSD and charter schools to help pay legacy costs), revenue sharing funds provided by the state (to help offset tax revenue losses from homestead exemptions<sup>3</sup>), and other miscellaneous local revenue.

Two unique characteristics of the OPSB's revenues must be noted. First, the figures in this section include only general fund revenues. Revenues from federal grant funds, including Title I and IDEA, are not included. (See Appendix A for explanations of these and other programs.) The OPSB receives significant amounts of revenue under these grant programs; however, because the district receives funds for students in both directly operated and

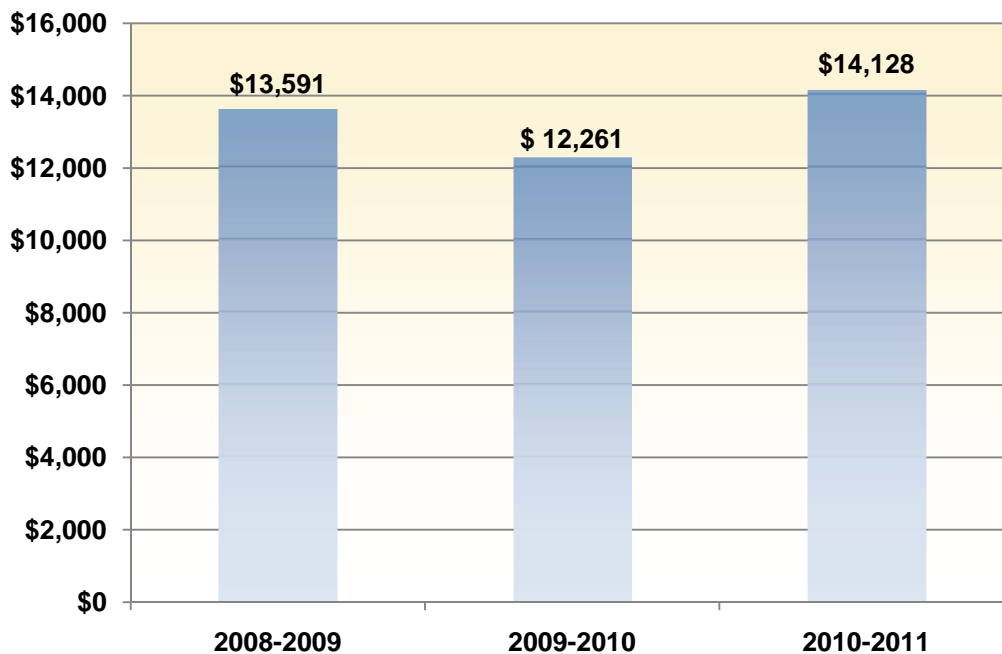
<sup>3</sup> In Louisiana, a homeowner does not have to pay taxes on the first \$75,000 of their home.

charter schools, it is not possible to determine the exact amount that is spent in traditional schools. Second, the OPSB is responsible for legacy costs from before the state takeover of schools. The OPSB receives revenue from its charter schools and from RSD schools (both charter and directly operated) to help cover their proportional share of these costs.<sup>4</sup> Although these revenues are reflected in the figures above (and in the expenditure figures below), these funds are used solely to pay the legacy costs and do not support OPSB schools. (See Important Issues below for a longer discussion on the issue of legacy costs.)

The district's operating expenditures are very similar to its revenue for each of the previous three years, as shown in the table below.

<sup>4</sup> Although 2010-2011 is the first year that the OPSB received revenue from its charter schools and RSD schools to help cover legacy costs, the district moved funds from reserves in previous years to cover these costs. Thus, revenue related to these costs is included in all three years shown in the table above.

### OPSB General Fund Expenditures per Pupil



Source: OPSB budget documents

The OPSB, like many other school operators in New Orleans, faces relatively high transportation costs. The 2010-2011 budget includes transportation

expenditures of \$1,000 per pupil<sup>5</sup>, while the statewide average for school districts is just over \$600. Given that there are no attendance zones for

<sup>5</sup> This figure is for OPSB district-run schools only. OPSB charter schools do not provide student transportation.

OPSB traditional schools, it is not surprising that transportation costs are significantly higher than the state average.

The OPSB pays for the insurance on all of the buildings in its control – those that are occupied by traditional schools and those that are occupied by charter schools. As discussed below, the RSD also pays for the insurance on all buildings under its control; however, RSD charter schools will have to pay their proportionate share of insurance if state funding for that purpose is ever discontinued. Because the charter agreements between the OPSB and its charter schools dictate who pays the insurance, it is possible that OPSB charter schools will also be responsible for their own insurance premiums at some point the future.

It is difficult to compare the OPSB's expenditures to other school districts across Louisiana. The figures above include expenditures at school sites and in the central office. The OPSB's budget documents break out the budgets for each central office department and each school. While the budget presentation makes it possible to look at expenditures at a detailed level, it is difficult to find appropriate per pupil comparisons. For example, the OPSB's information technology department and finance department appear larger than they would likely be in a typical school district with the same number of directly operated schools. However, in the case of the information technology department, the district provides fee-based services to its charter schools. In the case of the finance department, the district levies, collects, and distributes tax revenue on behalf of all public schools in New Orleans, including RSD traditional and charter schools, and it manages debt from before the state takeover. Thus, the larger workforce and budgets for these OPSB departments are not solely serving OPSB's four direct-run schools. Because the OPSB takes on a number of unique roles in relation to the RSD and its charter schools, it is difficult to make direct comparisons between it and other school districts in Louisiana.

### **Important Issues**

Within the past year, two long-standing issues that impacted the overall fiscal health of the OPSB were resolved: the repayment terms for the Community Disaster Loans (CDL) received after Hurricane

Katrina were finalized and the distribution of legacy costs and debt was equalized.

### ***Community Disaster Loan***

The repayment terms of the CDL that the district received after Hurricane Katrina were finalized. After the storm, the OPSB, like many local governmental bodies in the impacted areas, received a CDL from the federal government to help it restore and resume operations. The value of the OPSB's loan was \$59 million. Traditionally, CDLs were forgiven by the federal government before the repayment term began. At the time that the CDLs related to Hurricane Katrina were approved by Congress, however, a provision was included in the law that prohibited forgiveness. In 2007, the provision was deleted from the law. Even after it was clear that the federal government would be able to forgive some or all of the loans, the OPSB did not know how much, if any, would be forgiven. Thus, it was possible that the OPSB would have to repay the full \$59 million plus interest. In December 2010, the OPSB announced that, due to efforts by the district staff and its auditing firm, it was able to secure forgiveness of approximately \$40 million, leaving only \$19 million to be repaid. In anticipation of repayment, the OPSB reserved funds and should be able to repay this loan entirely over the five-year repayment period beginning in fall 2011.

### ***Legacy Costs and Debt***

Legislation was passed in 2010 to distribute legacy costs and debt from before the state takeover among all students in New Orleans. Legacy costs and debt relate to activities undertaken by the OPSB when all public schools in New Orleans were operated by the school board. Legacy costs are expenses that the school board incurs each year; specifically, these expenses are related to health care costs for retirees, legal fees for lawsuits stemming from actions before the state takeover, and payout of workers' compensation claims from before the state takeover. In addition to these costs, the OPSB is responsible for debt incurred before schools were transferred into the RSD. Legacy debt in this case refers to the debt related to bonds issued in the 1990s for which a specific millage is levied.

Prior to this year, some schools contributed to covering these costs while others did not, depending on the district and the type of school. State law

prevented the school board from requiring its charter schools and RSD schools from contributing revenue to help pay these costs. The OPSB was responsible for paying all of the expenses related to the legacy costs and all of the debt service on the bonds. Because the OPSB received revenues only for the four schools that it directly operates, it had to move funds from reserves every year to cover legacy costs and debt service. In the 2010 legislative session, stakeholders from throughout New Orleans came together to support legislation that made it possible to share these costs across all public schools in New Orleans. Because of this, costs are fairly shared and the OPSB's financial health is greatly improved.

### Recovery School District Finances

Each year, the RSD presents its budget to BESE for approval prior to the start of the fiscal year. Additionally, BESE calls on the district to present quarterly reports and a year-end financial report. While some of these budgets and financial reports are available on the RSD's website,<sup>6</sup> all of them are available in the books prepared for BESE members<sup>7</sup>

<sup>6</sup> [http://www.rsdl.net/InfoGlance/Documents\\_Reports.aspx](http://www.rsdl.net/InfoGlance/Documents_Reports.aspx)  
<sup>7</sup> [http://www.louisianaschools.net/bese/meeting\\_packets.html](http://www.louisianaschools.net/bese/meeting_packets.html). These board books are usually posted the Friday before a BESE meeting and are usually removed from the website immediately

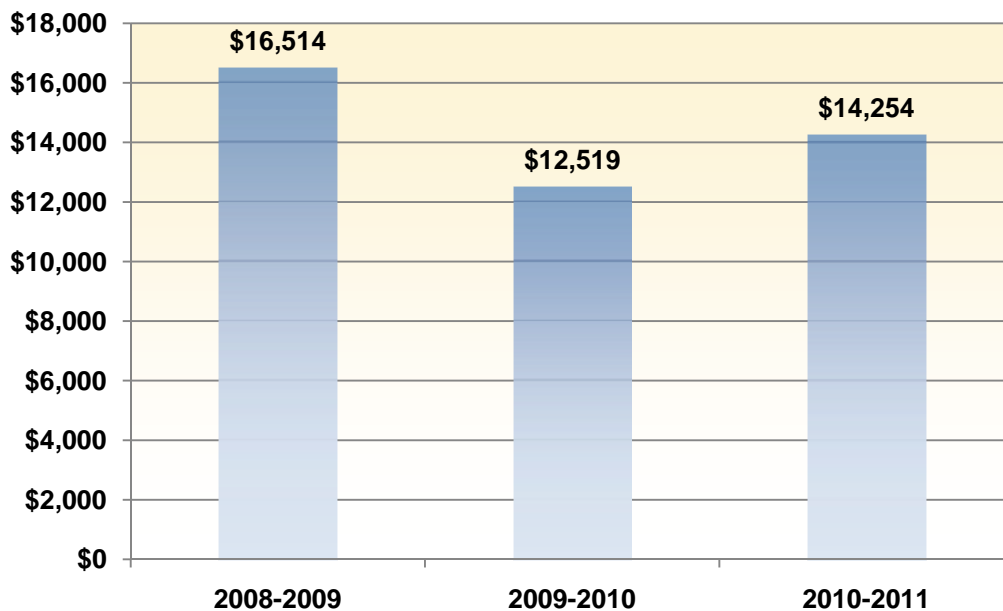
(which are available online for a short period of time immediately before and during BESE meetings). Because Type 5 charter schools are considered their own LEAs, they are not included in the analysis in this section.

### Revenues and Expenditures

The RSD's operating revenues have been decreasing over the past three years, both overall and on a per pupil basis. In 2008-2009, the district had total operating revenues of \$210 million. This figure represents the district's revenues after pass-through revenue (i.e., funds that the district receives on behalf of its charter schools and that it passes along to those schools) and capital revenues (i.e., revenues for construction and renovation projects) have been subtracted. In 2010-2011, the district anticipates \$125 million in total operating revenues. During the period from 2008-2011, the district has seen decreasing enrollment as more RSD charter schools have been opened. However, the decrease in the number of students does not entirely account for the decrease in revenues. The chart below shows the RSD's revenues on a per pupil basis for the past three years.

following the end of the meeting. The Cowen Institute maintains copies of the board books.

### RSD Operating Revenues per Pupil

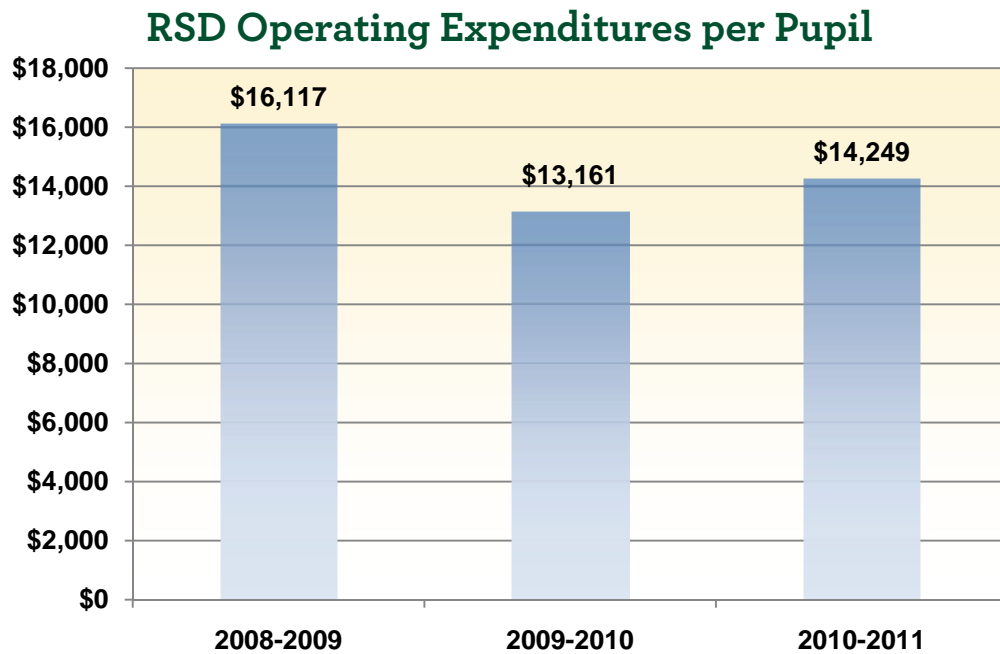


Source: FY2009 4<sup>th</sup> quarter financial report; FY2010 revenues tables from private correspondence with LDE; FY 2011 proposed budget.

The per pupil revenue is significantly higher than the per pupil amount calculated under the MFP formula, which for these years ranged from approximately \$8,000 to \$8,400. Much of the extra revenue comes from federal grant programs such as Title I and IDEA. (See Appendix A for descriptions of these and other programs.) These funds are available to all public schools in New Orleans and are recurring source of revenue. In recent years, the RSD's revenues have also included some one-time funds, mostly related to

hurricane recovery. These funds are mostly expended and now comprise a very small portion of the district's revenues.

The RSD's operating expenditures are very similar to its revenues each year. This pattern is to be expected because the RSD, as a unit within the LDE, cannot borrow money; also, it cannot carry forward a fund balance from year to year. The chart below shows the RSD's expenditures on a per pupil basis for the past three years.



Source: FY2009 4<sup>th</sup> quarter financial report; FY2010 revenues tables from private correspondence with LDE; FY 2011 proposed budget.

Throughout its history, the RSD has paid for the insurance on all buildings under its control – those occupied by traditional schools, those occupied by charter schools, and those that are vacant. The district has received state general funds to cover these costs. For example, in 2010-2011 the RSD received \$12.3 million for insurance. Part of the reason that state general funds are provided to cover insurance premiums is because the RSD is required to purchase insurance through the state; however, because the RSD is treated as a separate pool, the premiums are higher than it would likely pay if it were able to purchase insurance from the private market. If at any point in the future state funds for insurance costs are not provided, then all RSD schools will have to pay approximately \$450 per pupil in insurance premiums, which would result in a

significant decrease in funding for school operations. RSD charter schools have been notified of this possibility.

The RSD, like many other school operators in New Orleans, faces relatively high transportation costs. The 2010-2011 budget includes transportation expenditures of \$1,300 per pupil, nine percent (9%) of total expenditures (not including capital), while the statewide average is less than six percent (6%) of total expenditures. Given that there are no attendance zones for RSD schools and all schools in the RSD are open to all residents of New Orleans, it is not surprising that transportation costs are significantly higher than average.

Generally, total operating revenues per pupil for the RSD are declining. This is likely due to the decrease in hurricane-related federal funds. Over the past three years, the percentage of the RSD's revenues that came from federal sources decreased from 42 percent to 20 percent. The trend in expenditures over the same time period is the same as that for revenues – generally declining.

### **Important Issues**

After reviewing the financial documents for the RSD, a few important aspects of their finances and their financial reporting system have been identified.

#### ***Budget Amendments***

The RSD lacks a clear process around making amendments to its budget. In fiscal year 2009, for example, major changes were made to the budget mid-year without any explanation for the need for a budget amendment. Additionally, the only explicit reference to a budget amendment was that the columns on the table presented to BESE were labeled “FY 09 O. BUDGET” (for the original budget) and “FY 09 A. BUDGET” (for the amended budget). Prior to the start of the 2008-2009 school year, BESE approved the RSD's budget with \$194 million in operating revenue and expenditures. At the second quarter BESE meeting, RSD officials presented the amended budget of \$232 million in operating revenues and expenditures. The unaudited year-end report submitted to BESE showed total expenditures of \$205 million.

In fiscal year 2010, a different but related instance occurred with the budget. In this case, the actual revenues and expenditures presented in the year-end report vary significantly from the budget originally approved. The budget estimated \$176 million in revenues and expenditures. At year-end, total expenditures were \$156 million<sup>i</sup> – a decrease of 11 percent. Total revenues were \$149 million<sup>ii</sup> – a decrease of 15 percent. Again, no budget amendments were explicitly adopted nor was any explanation of the significant departure from the budget included in the year-end presentation.

#### ***Cuts in Expenditures***

The RSD seems to be making significant cuts in its expenditures, but it is not possible to identify where these cuts are occurring. From 2008-2009 to 2010-2011, expenditures per pupil decreased by 12

percent, from \$16,117 to \$14,249. During this same time period, the MFP funding per pupil for New Orleans increased by 6 percent. The decrease in overall expenditures by the RSD corresponds to decreasing availability of one-time revenues related to hurricane recovery.

The lack of details about cuts in expenditures is notable because RSD officials have implemented major reforms in recent years that have significant costs associated with them. In 2008, the RSD extended the school day to eight and a half hours, and in 2010 the district extended the school year by five weeks. The longer school year is expected to cost \$7 million in the 2010-2011 school year,<sup>iii</sup> and the longer school day was budgeted to cost an additional \$20 million in the 2009-2010 school year.<sup>iv</sup> These initiatives have possibly contributed to the growth in academic performance at the RSD direct-run schools in recent years, so it is reasonable to question whether these and other reforms are threatened by the decrease in revenue and expenditures.

#### ***Structural Limitations on Cash Management***

The RSD has significant cash flow complications because it is not legally a separate school district but rather it is a division of the Louisiana Department of Education. Because of its status, it does not have the same financial structure as school districts do. As part of the RSD's FY 2010 Management Letter, the Office of the Legislative Auditor notes that the RSD is frequently in noncompliance with state law because of its structure. The Legislative Auditor's office has recommended that the legislature provide relief to the RSD either by providing advance funding to the district or by providing an exemption for the district from state laws governing the payment of vendors.

### **Charter School Finances**

There are significant barriers to making financial comparisons across different types of charter schools. Type 2 and 5 charter schools, which are authorized by BESE, submit individual financial reports to the LDE every year. However, Type 1, 3 and 4 charter schools submit financial information to their districts, which are their authorizers. Their finances are then included as part of the district's report to the LDE. As required by their non-profit status, the entities that operate charter schools also hire independent auditors to produce an annual audit

of their finances. Charter school audits are posted on the Louisiana Legislative Auditor's website, usually beginning six months after the end of the fiscal year. Some charter school audits, however, are not available until nearly a year after the end of the previous fiscal year, creating a significant lag for assessing trends in charter school finances.

The data presented in this report comes from both charter school independent audit reports and the LDE's financial reports.<sup>8</sup> There are some discrepancies between the two reporting types, and this paper will note where those discrepancies are significant. Though independent charter school audits generally have more detail about charter school finances than the state reports, they are less uniform since each auditor has some flexibility in structuring the report. For instance, most charter school audits report revenues from different federal grants as separate line items while others list all federal revenue together as one line item. Some school audit reports have a line item for contributions while others omit it; where there is no line item for contributions, it is impossible to determine whether a school has received contributions and reported them under a different line item (such as "other") or whether that school has not received any contributions. Though all schools report the major categories of revenues, expenditures, assets, and liabilities, many of the details that underlie these numbers are partial or unavailable.

The LDE's financial reports have preset expenditure categories, which makes some comparisons easier. However, only charter schools that function as their own Local Education Agency (LEA) are reported separately by the state. As a result, Type 2 and Type 5 charter schools have their own lines in state financial reports but Types 1, 3, and 4 charter schools (which fall under the authority of a local district) are grouped together with their school district. In New Orleans, OPSB charter schools fall under the second designation and are not reported separately in state financial reports. This adds another obstacle to making comparisons across schools. With these limitations in mind, below we describe charter school

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<sup>8</sup> Audit reports were available for all charter schools that operated in New Orleans in 2008-2009. As discussed above, financial information was available from LDE for all Type 2 and Type 5 charter schools.

finances in the 2008-2009 school year. This is the most complete data available at the time of this writing.<sup>9</sup> It is important to note that this data describes a fiscal year that is now almost two years old. As a result, the trends identified here are not necessarily reflective of the current financial situation of charter schools.

## Charter School Revenues

During the 2008-2009 school year, charter schools in New Orleans received total revenues of \$233,164,624 and average revenues of \$11,416 per student based on independent audit reports. This per pupil average is lower than the per pupil average of both the RSD and the OPSB for the same school year. Between 2007-2008 and 2008-2009, per pupil revenues for charter schools in New Orleans were relatively stable. The 2008-2009 average revenue is nearly identical to the previous school year's charter school revenue of \$11,464 per pupil.

Based on the official October 1 student counts and each charter school's audited financial report for the 2008-09 school year, per pupil revenue varied greatly across different charter schools. On the low end, McDonogh 42 Charter School received \$8,915 per pupil while, at the high end, New Orleans College Preparatory School received \$18,646 per pupil.<sup>10</sup> Much of the difference in revenues, though not all, was due to outside contributions (from non-governmental sources): New Orleans College Prep reported that it received \$5,323 per pupil in contributions from outside funding sources (the most per pupil of any charter school and the second highest in total amount after KIPP New Orleans) while McDonogh 42 reported no contributions in its audit. Some of the difference in per pupil revenues was likely driven by the fact that New Orleans College Prep was relatively small in the 2008-2009 school year and preparing to nearly triple in size the following year. By contrast, McDonogh 42 was larger

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<sup>9</sup> As of early March 2011, only approximately 75 percent of charter school audit reports for 2009-2010 were available on the Legislative Auditor's website, and many of these were posted to the website during the month of February. It should be noted that this is in keeping with submission requirements established for non-profits. However, because a full set of data is not available, it was not possible to include information from these reports in this analysis. The Cowen Institute hopes to conduct an analysis of these data in the near future.

<sup>10</sup> The official enrollment count according to the LDE is 154 students; however an audited adjustment reported 172 students.

in 2008-2009 and had reached a relatively stable population.

Beyond these and a few other extreme examples, charter school revenue per pupil generally clustered near the median. The chart below shows the general distribution in charter school revenues.

2008-2009 Revenues per Pupil – Charter Schools	
90 <sup>th</sup> Percentile	\$12,775
75 <sup>th</sup> Percentile	\$11,941
50 <sup>th</sup> Percentile	\$11,119
25 <sup>th</sup> Percentile	\$10,350
10 <sup>th</sup> Percentile	\$9,765

Charter school revenues also vary by school type. Type 2 charter schools, which operate directly under BESE, had the lowest average per pupil revenues (\$10,368), followed by OPSB charter schools (\$11,142) and RSD charter schools (\$11,629). However, the differences between these categories of schools were much smaller than the differences among individual schools.

### **Non-Recurring Federal Funds**

Charter schools, like district-operated public schools, annually receive Title funds from the federal government for a variety of purposes. (See Appendix A for a description of these programs.) In addition, charter schools in New Orleans also received funds from several one-time federal programs. The following programs were created to help schools in areas affected by Hurricanes Katrina and Rita: Immediate Aid to Restart Public Schools (Restart), the Hurricane Educator Assistance Program (HEAP), and the Hurricane Katrina Foreign Contributions Program. A number of charter schools also receive money from the federal Public Charter School Program, which provides up to \$600,000 over three years to help new charter schools during their first few years of operation. Since many charter schools in New Orleans are new, a number have benefited from the program in recent years.

One-time federal grant awards benefit charter schools but also present a unique challenge because they are short-term sources of funds and will not be available in future years. Indeed, the larger the role

of one-time funds in a charter school’s budget, the more the school will need to adjust in future years.

Though one-time federal funds are part of a charter school’s revenues in any given year, the figures below are based on expenditures of one-time funds (as opposed to the amount of revenue received). This is because charter schools consistently report their *expenditures* from various grant sources in their audits; however, they often do not break out their *revenues* by grant source. Though expenditure and revenue amounts are often close in any given fiscal year, it is important to note that they are not the same thing.

During the 2008-2009 school year, charter schools in New Orleans reported spending \$11,543,289, or five percent of their total expenditures, from the four one-time federal programs listed above. This amount is very close to the 2007-2008 school year proportion of six percent of total expenditures. In 2008-2009, the largest amount was spent from the Public Charter School Program (\$7,052,210), followed by Restart (\$3,092,570), the Hurricane Katrina Foreign Contributions Program (\$1,098,950), and HEAP (\$299,559). OPSB charter schools used one time federal grants for a slightly higher proportion of their expenditures (6.3 percent) compared with RSD charter schools (4.6 percent). As a whole, while charter schools certainly benefited from these programs, one-time funds ultimately represented a relatively small proportion of total spending reported.

One important aspect of federal funds should be noted. Many of the federal grant programs that New Orleans charter schools receive are reimbursable grants; charter schools must spend money on eligible activities first and then be reimbursed by the federal government. Though many charter schools in New Orleans have sufficient fund balances to allow them to take full advantage of these grants, some do not. School districts typically have relatively larger fund balances and have not had the same difficulties in taking advantage of these grants.

### **Private Contributions**

Private contributions are often cited as an important source of charter school revenues. However, though some charter schools in the city reported significant levels of contributions, the majority reported small

amounts or nothing at all. In the 2008-2009 school year, charter schools collectively reported \$5.6 million in contributions, or less than three percent of their total revenue. Including schools that reported no contributions, this came to an average of about \$272 per pupil in contributions. In the previous school year, 2007-2008, contributions were 3.5 percent of total charter school revenues, or \$407 per student.

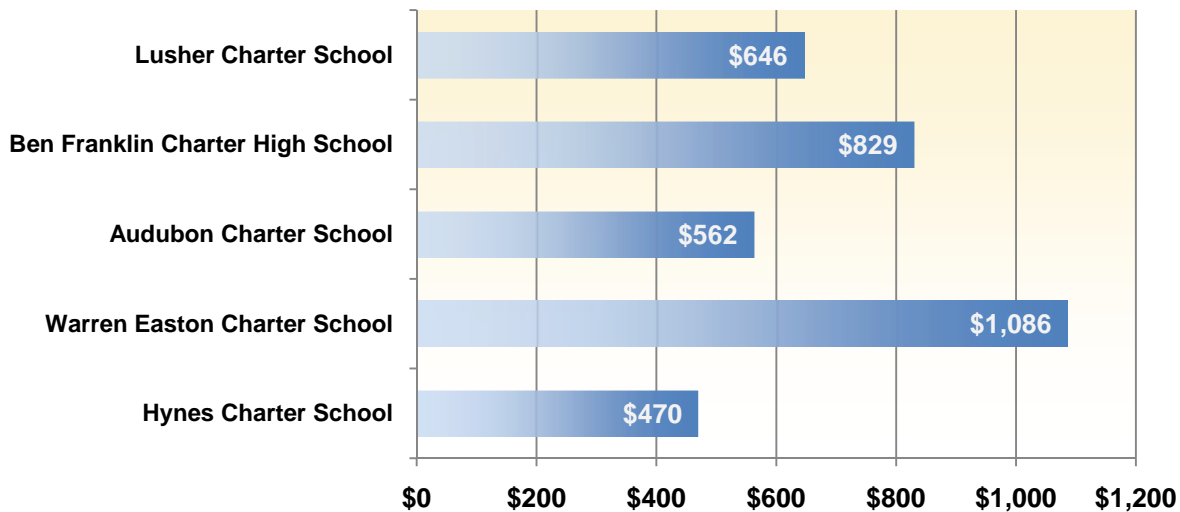
Only four charter school operators reported that contributions made up more than five percent of their total revenues: New Orleans College Prep (29 percent of revenues; \$5,323 per pupil), Langston Hughes Academy (11 percent; \$1,283 per pupil), KIPP New Orleans (which operated 4 schools; 11

percent; \$1,292 per pupil), and Advocates for Science and Mathematics Education (which operated 2 schools; 10 percent; \$1,220 per pupil). Because so many schools did not include a line item in their audit reports for contributions, it is possible that donations to charter schools are under-reported.

### Activity Fees

Student activity fees for extracurricular activities are a feature of several OPSB charter schools. These fees are for extracurricular activities, such as before- and after-care. Also, some schools charge fees for peripheral items, such as graduation and student identification cards. As the graph below shows, activity fees make up a small but still significant amount of revenue for these schools.

## Student Activity Fees Per Pupil



Source: Charter audit reports

### Charter School Expenditures

During the 2008-2009 school year, charter schools in New Orleans reported \$228,663,417 in total expenditures and average expenditures of \$11,195 per pupil in their independent audit reports. This average is almost \$1,000 higher than the previous school year's spending average of \$10,224 per pupil.

Like per pupil revenues, per pupil expenditures also varied greatly among individual charter schools. At the high end, New Orleans College Preparatory School spent \$16,537 per pupil while, at the low end, Robert Russa Moton Charter School spent \$8,481 per pupil. As with revenues, in spite of some outliers,

most per pupil expenditures are clustered in the middle.

2008-2009 Expenditures Per Pupil – Charter Schools	
90 <sup>th</sup> Percentile	\$12,935
75 <sup>th</sup> Percentile	\$11,994
50 <sup>th</sup> Percentile	\$11,531
25 <sup>th</sup> Percentile	\$9,908
10 <sup>th</sup> Percentile	\$9,019

As discussed above, RSD schools (both traditional and charter schools) have not paid premiums for the

insurance on their district-controlled buildings. The RSD has received state general funds to pay these premiums. If state funding for insurance were not provided, charter schools would be required to pay approximately \$450 per pupil each year toward insurance, which would result in a significant loss of funding for school operations.

### ***Transportation***

According to many charter school leaders and observers, transportation is a major cost in post-Katrina New Orleans since students can now attend schools all over the city rather than being restricted to those in their neighborhoods. Expenditures on transportation vary significantly among charter schools, in some cases because of different laws and requirements for the various types of charter schools. Charter schools authorized by the Orleans Parish School Board are not required by law to provide transportation to their students, and, according to their audit reports, they spend relatively little on busing. Collectively, the OPSB charter schools reported spending 2.2 percent of expenditures (\$225 per pupil) on transportation. By comparison, the statewide average for district spending on transportation was 5.7 percent of expenditures, or \$611 per pupil.

RSD charter schools, Type 5 charters that are authorized by BESE, are required by law to provide transportation for students; their transportation costs vary greatly. At the high end, New Orleans College Preparatory School spent almost ten percent of expenditures (\$1,608 per pupil) on transportation, while on the low end, Dr. Martin Luther King Charter School spent three percent of expenditures (\$246 per pupil). Overall, RSD charter schools spent \$755 per pupil on transportation, or seven percent of their current expenditures. This was \$144 per pupil higher than the state average.

### ***Instructional vs. Non-Instructional Spending***

The LDE accounting standards require school districts to account for the amounts spent on student instruction versus other types of non-instructional expenditures, such as administration and business services. The proportion of total expenditures spent on instruction is often used as a shorthand measure for how efficiently a school or district spends its money in order to prioritize student learning. In general, the LDE requires school districts to spend 70

percent of their general funds (which exclude special revenue funds) on student instruction (although there is no penalty if a school district fails to meet this threshold).

In their independent audit reports, charter schools report their instructional and non-instructional expenditures. However, these amounts often differ significantly from the amounts reported in state expenditure reports. The reason for these differences is unclear.

Since state expenditure reports are more standardized and also allow for comparisons with other districts, they are used in the analysis below. However, using state numbers excludes OPSB charter schools from the analysis, since the state does not report them separately from OPSB direct-run schools. As a result, the comparisons below only apply to RSD charter schools.

In the 2008-2009 school year, RSD charter schools in New Orleans spent \$7,017 per pupil on student instruction. The average for all school districts in Louisiana, \$7,203, was similar. However, because RSD charter schools spent more on total current expenditures per student than the average of all school districts, they spent less on instruction as a percent of current expenditures (61 percent for RSD charter schools vs. 68 percent on average for all school districts in the state). The main area where charter schools spent significantly more than the state average for school districts was administration: \$1,285 per pupil in New Orleans vs. \$565 per pupil for school districts across the state. In addition, RSD charter schools spent more than the average of school districts statewide on general administration and business services.

In total, RSD charter schools in New Orleans spent \$1,203 more per pupil on non-instructional support services than the average for school districts in Louisiana. This accounts for nearly all of the difference in current expenditures between RSD charter schools and school districts, since their instructional expenditures per pupil are similar. Because many charter schools in New Orleans are new and are still growing, they have relatively fewer students across whom they can spread the cost of school administration. It is unclear whether the current level of administrative costs could present a

long-term problem for charter schools if they cannot decrease administrative costs once they reach their full enrollment size.

### Surpluses and Deficits

Out of the approximately 40 charter school management organizations currently operating in New Orleans, 17 had surpluses (meaning their revenues were greater than their expenses) and 14 ran deficits in the 2008-2009 fiscal year (meaning their expenses were greater than their revenues). Since charter schools can hold reserves across fiscal years, a deficit in any particular year does not necessarily signify a problem if a school has savings to make up the difference. A school may save for several years and then incur a big charge in a year when it makes a large investment or has an emergency of some kind. However, if a school runs a deficit for many years in a row, it could point to potential financial problems in the future.

Surpluses and deficits ranged from a high of +\$3,205 per pupil (Lusher Charter School) to a low of -\$1,953 per pupil (Miller McCoy Charter School). Four additional charter school organizations had deficits of more than \$1,000 per pupil: Akili Academy, Ben Franklin Charter High School, Intercultural Charter School, and the UNO Charter School Network. The chart below shows the distribution of deficits among charter school operators in New Orleans.

2008-2009 Surplus/Deficit	
90 <sup>th</sup> Percentile	\$1,584
75 <sup>th</sup> Percentile	\$572
50 <sup>th</sup> Percentile	\$32
25 <sup>th</sup> Percentile	-\$571
10 <sup>th</sup> Percentile	-\$1,098

### Charter School Balance Sheets

There are a variety of indicators that can be used to measure charter school financial health, including cash assets per student, cash assets as a percent of expenditures, and liquidity ratio. Charter schools in New Orleans have highly variable levels of assets and cash on hand, making some schools much more resilient to cash flow problems or sudden emergencies than others. While all charter schools receive relatively reliable payments from local, state,

and federal sources, cash on hand would allow schools to continue operations without interruption if payments are delayed or to deal with sudden expenses that may arise. Significant savings also give schools flexibility to invest in additional staff, activities, equipment, or their physical plants.

Cash assets include money in the bank as well as other assets that can be sold quickly for cash, like money market accounts. Cash assets per pupil measures how much cash a school has on hand compared to other schools, regardless of size. At the end of the 2008-2009 school year, charter schools in New Orleans ranged from having \$7,063 per pupil in cash assets (Warren Easton Charter School) to \$208 per pupil (Miller-McCoy Academy). The chart below shows the general distribution of schools by cash assets per pupil.

2008-2009 Cash Assets Per Pupil	
90 <sup>th</sup> Percentile	\$4,768
75 <sup>th</sup> Percentile	\$2,969
50 <sup>th</sup> Percentile	\$1,228
25 <sup>th</sup> Percentile	\$722
10 <sup>th</sup> Percentile	\$314

More established and larger schools tend to have more cash per pupil, perhaps because they have had more time to save and are no longer paying high start-up costs. For instance, at the end of the 2008-2009 school year, the twelve relatively large and established OPSB charter schools held an average of \$3,197 in cash assets per pupil while the mostly newer and smaller RSD charter schools had an average of \$1,494 in cash assets per pupil.

Calculating cash assets as a percent of annual expenditures helps to measure a specific school's ability to pay for its operations out of savings. Since schools vary in how much they spend per year, this measure is normalized by each school's spending pattern rather than uniformly by pupil. At the end of the 2008-2009 school year, charter schools in New Orleans held an average of 19 percent of their annual expenditures in cash assets. This ranged from Warren Easton Charter School, which held 67 percent of its annual expenditures in savings, to Miller McCoy Academy, which held two percent. These values

represent the difference between a school being able to pay for operations for two-thirds of the year versus for one week out of its savings.

A school's liquidity ratio is calculated by dividing its cash assets by its liabilities (or what it owes). If the ratio is below 1.0, it means that the school owes more money than it has on hand. Some schools have liquidity ratios well above 1.0, meaning they can pay their debts several times over with their savings. Charter schools in New Orleans have an average liquidity ratio of 1.9 and range from 59.4 (Lake Forest Elementary) to 0.1 (Andrew H. Wilson Charter School). The table below shows the general distribution of liquidity ratios among charter schools.

2008-2009 Liquidity Ratios	
90 <sup>th</sup> Percentile	10.5
75 <sup>th</sup> Percentile	3.2
50 <sup>th</sup> Percentile	1.7
25 <sup>th</sup> Percentile	0.7
10 <sup>th</sup> Percentile	0.2

There are two important points to consider with respect to liquidity ratios. First, the liquidity ratio used here is a very conservative measure of a school's fiscal health. If all current assets were considered (rather than just cash), the ratios for schools would be higher. Second, the ratio of any individual school is not as informative as the variation across all schools. As seen with the other balance sheet indicators discussed here, some schools have a fairly robust financial position while others have yet to achieve that.

## Key Findings and Recommendations

### Key Findings

This paper presents the findings from a high-level analysis of school finances in New Orleans. The following general points summarize what this analysis reveals.

#### *The financial situation of schools in New Orleans is stabilizing.*

The operating environment for schools in New Orleans has stabilized significantly in many areas in the past few years, including finances. The amount of

one-time revenue related to hurricane recovery, and consequently the amount of expenditures from this revenue, is decreasing. Although significant variation still exists in total funding levels for schools, differences in the amount of local and state revenue that schools of different types receive have been largely eliminated. As the average number of years schools have been open has increased, schools' populations have stabilized and proportionately fewer schools are going through the expensive start-up phase. For all these reasons, the financial condition of schools in New Orleans is becoming more representative of how it is likely to be in the coming years.

#### *Drawing comparisons across schools and districts is complicated and problematic.*

There are many challenges in gathering data for even a single district or for only charter schools. The primary challenges are that data are often not available in a timely manner and, because of inconsistencies in reporting, it is difficult to use available data to make comparisons across schools. Most charter schools do not make financial data such as budgets and year-end financial reports publicly accessible. Thus, the only sources of financial data are the financial reports released by Louisiana Department of Education (LDE) and the financial audit reports that the schools submit to the Legislative Auditor. In both cases, financial data from these sources is not available until several months after the end of the fiscal year at the earliest. In extreme cases, data may not be available until over a year after the end of the fiscal year, as was the case with the 2008-2009 data released by the LDE. For the Orleans Parish School Board (OPSB) and the Recovery School District (RSD), some financial data is made publicly available prior to the start of the fiscal year because the districts release their budgets. However, proposed budgets, final budgets, and year-end financial reports are available to varying degrees with little consistency from year to year. Even once financial documents are collected, using them to compare schools or types of schools with one another is difficult because of the wide of variety of formats used in the documents. Making comparisons on even high-level financial characteristics, such as total operating revenue or total operating expenditures, is complicated at best and impossible at worst.

### ***It is difficult to produce a single, comprehensive picture of school finances in New Orleans.***

The overall fiscal climate of schools in New Orleans consists of many different pieces. As of the 2010-2011 school year, there are two districts and over 40 different school operators in New Orleans. Each operator has autonomy over the financial aspects of its school(s) and develops its own budget based on individual spending priorities. Further complicating the picture, some revenues flow between the districts or from the districts to charter schools, and the districts incur some costs (which are only sometimes reimbursed) on behalf of the charter schools. Additionally, the OPSB is financially accountable for its charter schools despite the fact that the charter schools are legally separate entities; this is not true for the RSD and its charter schools. All of these factors make it difficult to gain a comprehensive understanding of the overall fiscal health of public schools in New Orleans.

### ***Despite the difficulties in comparing schools and districts, it is clear that the range of revenues and spending across all schools is quite large.***

Compared to a couple of years ago, the variation in revenues and expenditures across schools is becoming smaller.<sup>v</sup> Nevertheless, sizeable disparity across schools in terms of the amount of money the schools receive and spend in a year continues to exist. For example, for the 2008-2009 school year, the school at the 90<sup>th</sup> percentile in revenues per pupil received \$3,000 more than the school at the 10<sup>th</sup> percentile. The variation in per pupil revenue and expenditures across schools raises questions about the sources of these variations. All public schools in New Orleans receive funding through the Minimum Foundation Program (MFP) and from federal sources. MFP funding is the same for every school in New Orleans.<sup>11</sup> While the amount of federal funding varies from school to school, the similarity in student population across schools means that nearly all schools are likely eligible for similar federal funding (once one-time grants related to start-up are exhausted). Thus, the schools with the lowest revenue and expenditures in this analysis probably

<sup>11</sup> The RSD distributes MFP funds to schools using a weighted formula that takes into account the number of students with exceptionalities and the type of exceptionalities for these students. Thus, individual schools may still receive varying amounts of funding but those variations are directly related to variations in student population.

represent a lower limit on the amount of funding that any given school is likely to receive. To the extent that schools with the highest revenues and expenditures are receiving private and/or one-time funds, it is not clear how long these schools can expect this support to continue. As the populations of growing schools stabilize, it is also likely that per pupil revenues and expenditures will become increasingly similar.

### **Recommendations**

There is a heightened need for transparency and accessibility to data given the current decentralized operating environment for public education in New Orleans. First, parents and students are required to choose schools rather than merely attending the school that serves their neighborhood. This is a much greater responsibility than families in traditional districts bear, and they need access to information to be able to fulfill this expanded role.

Second, the majority of public school students in the city are educated by independent charter operators who are individually responsible for their financial health. Nationally, 40 percent of charter school closures are due to financial problems.<sup>vi</sup> Given this, it is imperative that stakeholders have timely access to financial information in order to be proactive in addressing any issues that may arise.

Financial transparency allows stakeholders to see how public schools use the resources that are provided to them. When transparency exists, stakeholders are able to see financial information that is detailed; the information is easy to find and easy to understand; and the data is updated regularly. By these standards, many changes must be implemented to arrive at financial transparency for schools in New Orleans. Based on the analyses in this report, we make the following recommendations.

#### ***#1: Information should be available in a timely manner and should be updated frequently.***

Budgets for the two districts in New Orleans, the OPSB and the RSD, are available before they are adopted by the boards. Budgets for most charter schools are not made publicly available – either before they are adopted or afterward. Thus, for charter schools, financial data is not available until after the school has submitted its audit report to the Legislative Auditor, up to six months after the end of

the fiscal year. All schools should be required by the LDE to make their most current budgets and certain year-end financial reports available to the public. Also, LDE should accelerate its release of revenue and expenditure data. Districts are required to submit this data to LDE no later than four months after the end of the fiscal year; LDE should take no more than two to three months beyond that to release the data in a format that is understandable.

***#2: Financial data should be easy to access.***

The availability of financial data varies greatly. The OPSB generally posts budgets on its website. Year-end financial information is available through the Legislative Auditor's website after the district submits its audit report. The RSD generally posts budgets on its website as well. Year-end financial information is presented to BESE in the books prepared for board meetings; however, this information is available for less than one week on the LDE's website before it is removed. Charter schools are not required to post their budgets online; consequently, they rarely do. The only financial information that is available for the vast majority of charter schools in New Orleans is the audit reports that are submitted to the Legislative Auditor. Budgets and year-end financial documents should be available on individual charter school board websites. These documents should also be posted to the districts' websites for all schools in the district – both traditional schools and charter schools.

***#3: Data should be presented in a manner that allows for comparison.***

As discussed above, it is difficult to compare financial information across schools and districts. The data source that comes closest to allowing comparisons to

be drawn is the Resource Allocation data available from the LDE. These tables are based on information submitted by local education agencies (LEAs) in their Annual Financial Reports. The information in these reports should be classified in a fairly uniform manner, so that these reports allow for comparison. However, there are several problems with using this or other information to compare financials across schools or districts.

First, because OPSB charter schools are not their own LEAs, their financial information is rolled up with that of the OPSB itself in these reports. Second, for the most recent year available (2008-2009), LDE excluded one-time hurricane revenue and related expenditures from the RSD's financial information; thus, that information cannot be used to make a comparison with other hurricane-impacted districts, including the OPSB. Last, the tables for the 2008-2009 school year were not posted until late 2010, approximately 18 months after the end of the fiscal year.

Schools and districts should continue to have autonomy over the accounting method they use and the format of their financial documents. However, given that there are over 40 school operators in New Orleans, additional minimal reporting requirements should be put in place on all New Orleans schools – traditional schools and charter schools. These additional reporting requirements should develop common ways of reporting budget information and year-end financial information, including selected subcategories of revenues and expenditures. This information should be reported to the LDE, which should make it available within a timeframe that allows the public to access it while it is still relevant.

We have begun working with the Louisiana Department of Education on the need for transparency created by the new operating environment in New Orleans and are optimistic that the department will make changes to policies and procedures that will benefit all stakeholders.



## End Notes

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<sup>i</sup> Louisiana Department of Education, private correspondence, February 25, 2011.

<sup>ii</sup> Louisiana Department of Education, private correspondence, February 25, 2011.

<sup>iii</sup> Cindy Chang, "Vallas to add 5 weeks to school year," *Times-Picayune*, July 3, 2010.

<sup>iv</sup> Sarah Carr, "Dismissal bell later for RSD students," *Times-Picayune*, January 12, 2009.

<sup>v</sup> Scott S. Cowen Institute for Public Education Initiatives, *Public Education in New Orleans: A Financial Analysis*, February 2009.

<sup>vi</sup> The Center for Education Reform, *The Accountability Report 2009: Charter Schools*, February 2009.

## Appendix A: Funding Sources for Public Schools

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 \$185 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 25 to 90 percent. In New Orleans, for 2010-2011 the state portion makes up 51 percent of total MFP funding. OPSB and RSD schools receive the same amount of funding per pupil under the formula. 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 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 from birth through age 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.

Hurricane Educator Assistance Program – This program was created to help Louisiana, Mississippi, and Alabama recruit and retain educators. Funds can also be used to compensate educators who commit to work for three years in a hurricane-impacted area.


Katrina Foreign Contributions Program – This program was created from the funds that were donated to the United States by foreign governments to help with recovery efforts after Hurricane Katrina.

### 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.

## Appendix B: Key Financial Indicators for Charter Schools, 2008-2009

School or Network	Revenue Per Pupil	Contributions Per Pupil	Expenditures Per Pupil	Deficit Per Pupil [(Revenues - Expenditures) / Pupil]	Cash Per Pupil	Liquidity Ratio (Cash Assets/ Liabilities)
Abramson Charter School- Pelican Educational Foundation	12,777	14	12,857	-80	733	0.5
Advocates for Science & Mathematics Education <sup>1</sup>	12,752	1,220	12,943	-191	712	1.5
Akili Academy	10,315	151	11,908	-1,593	641	0.6
Algiers Charter School Association <sup>5</sup>	11,695	1	11,898	-203	1,664	1.2
Audubon Charter School	10,362	311	9,960	402	1,163	1.8
Ben Franklin High School - Advocates for Academic Excellence	10,820	255	11,941	-1,121	1,196	1.5
Crocker Arts and Technology School - Advocacy for the Arts & Tech	13,432	80	13,144	288	308	0.3
Einstein Charter School	10,967	*	9,188	1,778	2,131	8.9
Esperanza Charter School	10,476	1	10,136	340	1,261	1.4
Firstline Schools <sup>2</sup>	15,862	415	15,325	538	3,433	2.2
Hynes Charter School	10,743	355	10,253	490	3,448	2.8
Intercultural Charter School	10,643	*	11,746	-1,103	611	0.2
International School of Louisiana	9,761	215	9,750	11	2,098	2.5
KIPP New Orleans <sup>3</sup>	11,618	1,292	12,353	-735	1,887	3.8
Lafayette Academy - Choice Foundation	11,938	387	11,959	-22	726	0.9
Lake Forest Elementary Charter	10,637	141	9,000	1,637	5,102	59.4
Langston Hughes Academy - NOLA 180	11,306	1,283	11,446	-140	1,044	1.6
Lusher - Advocates for Arts-Based Education	11,966	255	8,761	3,205	4,914	15.1
Martin Luther King Charter School	9,981	193	9,308	673	1,072	1.4
McDonogh 42 - Treme Charter School Assoc.	8,915	*	9,719	-803	258	0.3
Milestone SABIS	11,290	*	12,098	-808	1,821	2.9
Miller McCoy Academy	9,383	463	11,337	-1,953	208	0.1
Moton Charter School- Advocates for Innovative Schools	8,936	*	8,481	456	3,301	3.7
N.O. Charter Schools Foundation <sup>4</sup>	12,343	13	11,616	727	370	0.8
New Orleans College Prep	18,646	5,323	16,537	2,110	3,012	5.5
Priestley Charter School	9,798	170	8,694	1,104	991	1.8
Singleton Charter - YMCA	9,851	2	10,368	-517	2,955	2.8
Sojourner Truth Academy	10,990	326	10,938	52	1,495	3.1
Sophie B. Wright - Institute for Academic Excellence	11,951	*	11,732	219	5,457	10.7
UNO Network <sup>6</sup>	11,249	1	12,296	-1,048	803	0.2
Warren Easton Charter School	11,621	480	10,516	1,104	7,063	32.9
Wilson Charter School- Broadmoor Charter	11,685	*	11,685	0	257	0.1



\* These schools did not include a separate line for contributions in their audit reports. It is possible that they received contributions and reported them under a different heading.

<sup>1</sup> includes N.O. Charter Science and Math Academy and N.O. Charter Science and Math High School

<sup>2</sup> includes Arthur Ashe Charter School and Samuel Green Charter School

<sup>3</sup> includes KIPP McDonogh 15, KIPP Believe, KIPP Central City Academy, KIPP Central City Primary

<sup>4</sup> includes N.O. Free Academy and McDonogh City Park

<sup>5</sup> includes Harte Elementary School, Karr High School, Algiers Technology Academy, Behrman Charter School, Eisenhower Elementary School, Fischer Elementary School, McDonogh 32 Elementary School, Tubman Elementary School, and O.P. Walker High School

<sup>6</sup> includes Capdau Charter Elementary School and Nelson Charter School