

March 18, 2009

Orleans Parish School Board
3520 General DeGaulle Drive
New Orleans, LA 70114

Dear Orleans Parish School Board Members:

The Orleans Parish School Board Debt Working Group (Working Group) was formed in October 2008 to explore possibilities for reducing the debt of the Orleans Parish School Board (OPSB or School Board). As part of its analysis, the group has been conducting research and meeting with experts to develop an understanding of the financial issues facing the School Board. The Working Group members are:

- Grover Austin, contractor for Louisiana Department of Education
- Rick Conway, Frantzen, Voelker, and Conway Investments, LLC
- Leslie Jacobs, Educate Now!
- Janet Howard, Bureau of Governmental Research
- David Marcello, The Public Law Center
- Farhad Patel, Jenner & Block, LLP – Counsel to Cowen Institute (Chicago, IL)
- Cleland Powell, Whitney National Bank
- Lee Reid, Adams and Reese, LLP
- Pete Rosenbaum, Jenner & Block, LLP – Counsel to Cowen Institute (Chicago, IL)
- Nash Molpus, Tara O'Neill, Andrea Caldwell, Cowen Institute

It is clear from our preliminary work that the School Board faces significant financial challenges in the immediate future. The School Board expects expenses (net of distributions to the charter schools and Recovery School District) to exceed revenues by \$12-14 million in the current school year. The projected deficit equals between 33% and 40% of the School Board's General Fund budget of \$35 million.

There are \$6 million in annual expenses for OPSB attributable to Legacy Costs, discussed below. The balance of the \$12-14 million is for operating expenses for the central office and the five schools directly operated by the board. To cover these expenses, the OPSB has approved the transfer of \$6 million from unrestricted reserves and expects to transfer another \$6-8 million from unrestricted reserves before the end of the fiscal year. After the transfer, the School Board's unrestricted reserves will total approximately \$60 million.

Legacy Costs refer to certain outstanding obligations and continuing expenses (other than debt service)¹ incurred, or relating to events that occurred, when the School Board directly operated all of the public schools in New Orleans. These include retiree health benefits; costs related to the termination of over 7,000 employees (including compensation for accrued sick leave and vacation time and litigation related to terminations); and other litigation and pre-takeover obligations. The Legacy Costs are variable and will continue indefinitely. The School Board estimates that Legacy Costs will remain around \$6 million a year in the next year and will begin to decline after that.

¹ Debt service (approximately \$40 million this year) is shared on a per-pupil basis with the Recovery School District and its charter schools. At this time, the School Board does not share this expense with its own charter schools.

The Legacy Costs were incurred at a time when the School Board was responsible for almost all of the schools in New Orleans. Since then, all but five schools have been transferred to the Recovery School District (RSD) or given charters. Most of the School Board's funding has followed the pupils to those schools. The responsibility for the Legacy Costs has remained, however, with the School Board. Currently, the OPSB is using its unrestricted reserves to cover the cost.

At its current rate of spending, the School Board will use all of its unrestricted reserves to meet operating expenses and Legacy Costs in the next four to five years. Absent unanticipated revenues, the School Board will then face a significant, unfunded deficit for its operations. In addition, Legacy Costs will continue to cut significantly into funds available for the operation of the School Board's system, to the detriment of the system's 2,700 students.

The situation is further complicated by the unresolved status of a \$60 million dollar borrowing from the federal government through its Community Disaster Loan (CDL) program. The loan, which comes due in 2010, is forgivable by FEMA.² However, if it is not forgiven and the \$60 million must be repaid to the federal government, reserves will be exhausted by year end.

It is clear that the other operating expenses for the school system will far outpace revenue next year unless the School Board makes major changes. It is also clear that the School Board lacks the capacity to pay for Legacy Costs out of operating revenue. The Working Group encourages the OPSB to take the following actions as the first steps to address these problems:

- **Make the tough decisions to balance the budget.** The School Board should begin making the tough decisions required to balance its 2010 operating budget (exclusive of Legacy Costs). The School Board should start the budget process now to allow time to adequately consider and implement needed changes.

Eliminating deficit spending for school operations and central office will likely require further reductions in force. The School Board should start by scrutinizing the needs of the central office for economies. The 2008-2009 budget showed 74 central office positions—or one central office support staffer for every 35 students. For comparison, ten similarly sized districts had an average of 34 employees in the central office in 2007-2008—or an average of one central office support staffer for every 94 students. Conservatively, the OPSB spends 11.5% of its budget on administrative functions.

- **Utilize CDL funds to pay Legacy Costs.** The School Board should use the funds reserved for the CDL to pay for Legacy Costs, while also managing these costs to reduce them. If forgiven, the CDL funds would provide a repayment source for Legacy Costs over the next ten years at least.

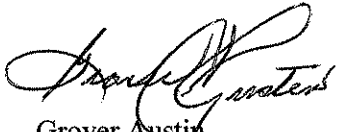
As noted above, the Legacy Costs were incurred for the benefit of New Orleans' public school system in its entirety, before most of its schools were transferred to the RSD. The CDL funds were provided based on conditions in the system before the transfer. In using funds reserved for the CDL to pay Legacy Costs, the School Board would match obligations related to the system as a whole with a funding source that is also based on the whole system.

² The term of the loan is five years. Based on previously issued CDLs, the forgiveness process usually begins three years after the loans are made. However, regulations governing the CDL forgiveness process for the CDLs issued following Hurricane Katrina have not been issued by FEMA. Until the regulations are issued, the exact date that OPSB may apply for forgiveness is unclear.

- **Require fiscal impact statements.** The School Board should require the administration to provide fiscal impact statements for all proposals that come before them. Fiscal impact statements allow the School Board to make an informed analysis by weighing the need for the proposal against the proposal's effect on the OPSB budget.

We hope that you find these preliminary recommendations helpful. As the School Board tackles these difficult financial issues, we look forward to working with you by providing further suggestions as they are developed.

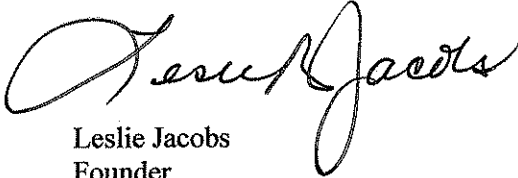
Respectfully Submitted,



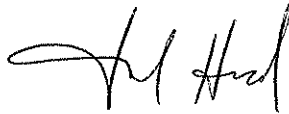
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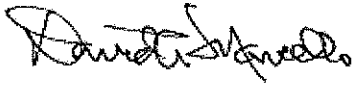
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