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## BGR RELEASE

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### School Facilities Plan Leaves Financing Questions Unanswered

On August 20th, the Recovery School District and the Orleans Parish School Board released for public comment a draft School Facilities Master Plan for Orleans Parish (the Plan). The Plan is a welcome and much-needed comprehensive look at the infrastructure needs of public schools in the parish. Its importance cannot be overstated. If adopted, it will set the course for the development of New Orleans public schools for decades to come. It will guide decisions as to which schools are closed, which are built or renovated, and when and where.

The Plan is designed to address the decades of neglect and insufficient funding for New Orleans school facilities. It purports to locate schools throughout the city on a more effective and equitable basis and to provide for “new and renovated facilities that can accommodate the education needs of the twenty-first century.”<sup>1</sup> It proposes to accomplish this through a staged rebuilding program, consisting of six phases over 10 years, at a projected cost of \$2 billion.<sup>2</sup>

In the words of the planners: “When this plan is implemented, New Orleans public school students will attend twenty-first century schools...”<sup>3</sup> The catch is that implementation depends on funding, and there are solid prospects only for Phase I, which has a price tag of \$675 million. School officials estimate that they can cobble together between \$100 million and \$200 million for Phase II. But that leaves a gap of \$1.1 billion to \$1.2 billion for the remainder of the plan.

The Plan makes no assessment of whether this gap can realistically be funded. The section on finances merely provides a brief discussion of possible funding mechanisms. These include general obligation bonds, local property taxes, local sales taxes, sharing of facilities, state funds, federal funds, lease-purchase arrangements, sales of assets and public-private partnerships. The Plan does not provide revenue estimates for these sources, nor does it discuss the likelihood that they will materialize.

<sup>1</sup> *School Facilities Master Plan for Orleans Parish, Blueprint*, p. i. (August 2008).

<sup>2</sup> The cost does not include inflation adjustments.

<sup>3</sup> *Blueprint*, p. v.

School officials and planners confirmed that the planning process did not attempt to address these issues. An assessment of the financing for Phases II through VI was outside the scope of the Plan.

This is troubling. Facilities planning without a realistic assessment of financial resources for these phases is at best an exercise in visioning. At worst, it projects the illusion that all students will have access to world class schools. But, according to school officials, only half of the projected student population would have such facilities if Phase I alone were funded. The other half would not. This is a huge improvement over the current situation, but falls short of the Plan's promise.

How likely is it that the financing for Phases II through VI will materialize? Many of the potential revenue sources listed in the Plan are uncertain, inadequate or currently nonexistent. School officials confirmed that they are not aware of any state program currently in place that would provide New Orleans with additional funding for school facilities. As to federal funding, the Plan notes that historically little has been available for school facilities.

Ultimately, the most likely funding source is the traditional one: local taxpayers. Even a community firmly committed to improving school infrastructure confronts real constraints, including competing needs, its ability to borrow, its ability to absorb higher tax rates and its tax burden relative to other communities in the area.

Unfortunately, the Orleans Parish School Board is saddled with significant debt. It has outstanding \$290 million of bonds and other debt instruments, and another \$153 million in other long-term obligations. Last year it paid \$6.7 million for debt service on the bonds and other debt instruments.<sup>4</sup> The amount will jump to \$22.1 million this year and grow to \$39.5 million in 2014, before declining.<sup>5</sup> Local contributions to support Phases II through VI would have to come on top of future increases to support existing debt.

Certain factors suggest that the local community lacks the capacity to fund all or most of the rebuilding program. There is little room for growth in the sales tax rate, which is currently at 9%. As to property taxes, a rough calculation indicates that it would take approximately 33 mills to provide the remaining \$1.1 billion needed for full implementation.<sup>6</sup> That would almost double the school system's current millage rate (38.47).

The community would be hard pressed to finance the proposed capital program even if it made school facilities its sole investment. But school facilities are not New Orleans' – or the school system's – only need. The New Orleans Department of Public Works estimates a need for \$3.7 billion in capital funds to repair streets and drains. The Sewerage and Water Board projects \$5.7 billion in capital needs over 25 years. The proposed justice facilities have a price tag of \$1 billion.

The cost of providing high-quality education within the proposed state-of-the-art facilities is another issue that must be addressed, as is the funding source for properly maintaining the school system's

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<sup>4</sup> The payment covered only a portion of the amount owed that year. The State paid \$28.2 million to cover the balance.

<sup>5</sup> These do not include debt service on post-Katrina federal loans.

<sup>6</sup> The calculation assumes the issuance of \$1.1 billion in bonds, payable over 30 years, and bearing interest at 5.5%.

properties. Both the Orleans Parish School Board and the Recovery School District are currently using non-recurring revenues to meet operating expenses.

The Plan will be a useful guide capable of delivering on its promises only if it is grounded in fiscal realities. The information currently available suggests that the Plan does not meet that requirement for most of its phases. Without financing, the Plan cannot be fully implemented. This is a cause for concern because partial implementation is likely to perpetuate wide variations in the quality of our school facilities.

We urge the Orleans Parish School Board and the Recovery School District to provide the public with a candid assessment of the prospects for implementing the various phases of the Plan. Only then can the public properly evaluate it.

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*BGR is a private, nonprofit, independent research organization. Since its founding in 1932, it has been dedicated to informed public policy-making and the effective use of public resources in the Greater New Orleans area. For more information call 504-525-4152 or visit BGR's website, [www.bgr.org](http://www.bgr.org).*

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