



TANGIPAHOA PARISH SCHOOL SYSTEM

Analysis of Desegregation Financing Plan

March 15, 2011

AGENDA

- Postlethwaite & Netterville Team Members
- Objectives of Analysis
- Key Definitions
- Components of Financing Plan
- Financial Summary
- Observations and Analysis
 - Operating Environment
 - Means of Financing the Plan
- Summary of Key Results
- Questions

TEAM MEMBERS

- Joey Richard, Managing Director – jrichard@pncpa.com
- Freddy Smith, Director – fsmith@pncpa.com
- Corey Jambon, Manager – cjambon@pncpa.com
- Sean McGarry, Senior – smcgarry@pncpa.com

OBJECTIVES

Our analysis was scoped to accomplish the following objectives:

1. Evaluate components, assumptions, estimates, and projections included in the Financing Plan
2. Evaluate current financial position of Tangipahoa Parish School System in relation to the Plan

KEY DEFINITIONS

- “Desegregation Order”
 - Civil Action No.: 65-15556 dated March 4, 2010 by the United States District Court Eastern District of Louisiana
 - Outlines specific requirements necessary to comply with the terms of the Order
- “Financing Plan”
 - Prepared by Management of the Tangipahoa Parish School System
 - Outlines 14 items necessary to comply with requirements of the Order and to maintain current operations
 - Estimated constructions costs as determined by professional architects
 - Five (5) year projection of operating costs
 - Detailed estimates of sources of funding: existing fund balances, new G.O. and Revenue Bonds, sale taxes, and government grants

COMPONENTS OF FINANCING PLAN

1. Finance the existing Revenue Bonds
2. Finance existing General Obligation Bonds
3. Finance the construction of OW Dillon Elementary School
4. Finance the construction of five (5) new schools
5. Finance the Magnet Schools Building Improvements
6. Finance the remaining Building Improvements
7. Finance Magnet School's Operations Costs
8. Finance Art & Music Instruction at each Elementary School
9. Finance additional transportation cost (New, Magnet, & M-to-M)
10. Finance proposed salary increases
11. Finance additional operation cost for five (5) new schools (begin 2013-2014 SY)
12. Finance additional Pre-kindergarten Programs
13. Finance the operation of the Hammond Alternative Program
14. Finance the projected deficit

FINANCIAL SUMMARY

1. Estimated costs of compliance with the Desegregation Order and future operating deficits:
 - Construction costs for **six (6)** new schools and **30** school building improvements are estimated by professional architects to cost approximately **\$187,000,000**.
 - Operating costs for approximately **220** school related positions for new schools, magnet school programs, Art and Music Instruction, additional transportation, salary increases, and additional pre-kindergarten programs will average **\$16,500,000** per year. Additionally, **\$10,200,000** of annual operating deficits are expected bringing total costs to be covered to approximately **\$26,700,000** per year.
2. To pay for construction costs, management proposes issuing **\$120,000,000** of General Obligation Bonds, **\$58,200,000** of Sales Tax Revenue Bonds, and utilizing **\$16,000,000** of current Capital Projects funds.
 - Debt service costs will average **\$12,000,000** per year
3. Average annual estimated revenue as set forth in the Financing Plan is approximately **\$39,200,000** per year.
4. Average annual estimated outlay for operations and debt service as set forth in the Financing Plan is approximately **\$38,700,000** per year.

OPERATING ENVIRONMENT

1. Louisiana Education System faces the following challenges:
 - MFP revenue has remained flat
 - Increased employer contribution rate for the Teachers Retirement System
 - Rising health care costs
 - Depletion of reserves
 - Interest return on investments has decreased
 - Sales tax revenue has decreased
2. These financial challenges exist irrespective of the activities necessary to comply with the Desegregation Order.

MEANS OF FINANCING THE PLAN

1. A third one cent sales tax (excluding food and prescription drug purchases) – average **\$11,600,000** per year
2. A 29.5 mill property tax – average **\$14,100,000** per year
 - When combined with the constitutional (4.06) mills and elimination of the sub-district millage brings total School property tax millage to 33.56.
3. Existing PAYG Fund Balance – average **\$3,500,000** per year
4. Federal Grants - average **\$2,000,000** per year
5. Additional “Level 2” MFP State funding - **\$10,000,000** per year starting in year 2 (2012-2013 SY).

MEANS OF FINANCING THE PLAN

Information compiled by the Louisiana Department of Education for Fiscal Year 2009 - 2010

1. Average sales tax rate levied by school districts was 1.98%
 - 18 of 69 school districts levied greater than 2%
 - 8 of 69 school districts levied 3%
2. Average property tax levied by school districts was 40.05 mills.
 - The Financing Plan proposes a property tax of 33.56 mills

KEY RESULTS – FINANCIAL POSITION

Analysis of the audited financial statements revealed the following operating (deficits)\surpluses:

Fiscal Year	General Fund	Sales Tax Maintenance	Combined Total
2008	\$ (512,544)	\$ (130,992)	\$ (643,536)
2009	(1,188,873)	(341,524)	(1,530,397)
2010	(2,460,683)	620,185	(1,840,498)

Note: Sales Tax Maintenance Funds are restricted for certain activities and cannot be included in General Fund balances.

KEY RESULTS – FINANCIAL POSITION

Analysis of the audited financial statements revealed the following potentially available fund balances:

Category	General Fund		Sales Tax Pay as You Go		Sales Tax Maintenance		Total
Actual Fund Expenditures and Transfers Out - June 30, 2010	\$ 127,401,842	1	\$ 5,620,828		\$ 7,646,868		\$ 140,669,538
Ending Fund Balance - June 30, 2010	\$21,024,280	5	15,518,339		8,978,011		45,520,630
Actual Reserve %	17%		276%		117%		
Target Fund Balance %	12%		12%		12%		
Target Fund Balance Amount	15,288,221		674,499		917,624		16,880,345
Fund Balance in Excess of Target	5,736,059		14,843,840		8,060,387		28,640,285
Adjustments / Allocations	(5,281,220)	2	(14,843,840)	3	(2,000,000)	4	(22,125,060)
Available Fund Balance	\$ 454,839		\$ -		\$ 6,060,387	6	\$ 6,515,226

Notes

- 1 - General Fund Expenditures include those of the MFP Stabilization fund of \$3,113,337
- 2 - General fund has a projected operating deficit in the General Fund of approximately \$5.2 M for 2010-2011 FY which is considered in the analysis
- 3 - The entire portion of the "Sales Tax Pay as You Go" fund balance is designated for the Desegregation Plan.
- 4 - Significant cost of replacing window air-conditioning units of approximately \$2,000,000 will be incurred within the next several fiscal years. School Board Management expects this cost to be funded from current one cent sales tax fund balance rather than future tax revenues.
- 5 - Equals the amount reported in the general fund less approximately \$2,000,000 for the Education Excellence funds held by the State Treasury and are subject to restrictions
- 6 - Potential restrictions include: district-wide allocations, unfavorable trending of expenses exceeding revenues, and discretionary projects

KEY RESULTS

COMPONENTS OF THE FINANCING PLAN

1. While existing fund balances are available to be contributed to the Plan, the activities of the Plan **cannot** be funded solely from existing fund balances and revenue streams while maintaining current levels of operation.

2. The sources of funding as projected in the Plan would be sufficient to cover estimated costs and expenses without producing excessive fund balances.
 - The sources of funds to be applied to construction costs would produce a nominal excess of approximately **\$2,600,000**, which is approximately **1.2%** of total construction estimates. It should be noted that this amount is budgeted and available if needed; however, funding draws would not occur unless necessary.
 - The sources of funds to be applied to debt service and operating costs exceed those outlays by approximately **\$2,300,000** over a five (5) year period, or an average of approximately **\$500,000** per year or **1.3%** of estimated annual costs.



QUESTIONS