LAFAYETTE PARISH SCHOOL SYSTEM

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LAFAYETTE PARISH SCHOOL SYSTEM

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October 13, 2006

James H. Easton, Ed.D.
Superintendent
Lafayette Parish School System
113 Chaplin Drive
Lafayette, LA 70508

Dear Dr. Easton,

The budget for fiscal year (FY) 2006-2007 is presented in accordance with applicable laws and regulations of the state of Louisiana. The budget for the General Fund has a slight deficit of $60,000 after the Board changed the recommendation of staff to include a new principal position that had been eliminated to balance the budget. All other significant funds are presented in balance with revenues and resource levels equal to expenditures and other resource allocations.

There were many challenges and objectives in developing the FY 2006-2007 budget. Several such items are items are explained below. It is important for the reader to understand that many areas of our operation involve costs which cannot be controlled or predicted. As always, we wish that more funds were available so that we could adequately budget for various system areas.

Hurricanes and MFP

By far, the greatest challenge in developing the 2006-2007 budget was the increased unpredictability of the state's MFP (minimum foundation program) due to the 2005 hurricanes.

In August and September of 2005, Louisiana was hit with two of the most costly hurricanes in history. Fortunately, Lafayette Parish was spared severe damage from these storms. In fact, Lafayette Parish became a haven for many evacuees, including a large influx of students. The budgetary impact of these additional students will be discussed in the "Enrollment" section of this letter.

Normally, the amount of MFP funding we can expect to receive is announced to us in January. However, due to the impact of the 2005 hurricanes on our entire state in various ways, our MFP funding amount for 2006-2007 was not announced to us until June 6th. Not only was the MFP budget letter later than usual, but the figures in the MFP budget for our parish revealed a large decrease in funding over the prior year. As a result, staff and the school board worked quickly and painstakingly to identify over $6,000,000 in budget cuts for the 2006-2007 fiscal year in order to balance the General Fund budget.

There was, however, a positive financial aspect of the 2005 storms experienced last year which is expected to carry over into our 2006-2007 fiscal year. Lafayette Parish saw a great increase in sales tax revenues caused by the sudden increase in population. Displaced Louisianans shopped heavily in Lafayette Parish for recovery items and activity in the oil services area increased due to facility repairs in the Gulf of Mexico. As a result, our school system was able to address certain needs as described in the "Debt Service" section of this letter.

While increased sales taxes are generally welcomed and are seemingly a positive circumstance, it is very important to note that the increased revenue can also pose a threat to our MFP funding (the "wealth factor" portion of the MFP formula). Parishes that were severely damaged by the hurricanes will probably reflect a decrease in "wealth". Thus, these parishes will probably receive more in MFP funding. In contrast, parishes that survived the storms with nominal damage may receive decreased MFP funding. This is a situation which we will need to monitor closely as we move through this fiscal year and as we prepare for the 2007-2008 fiscal year.

Enrollment

The system's enrollment peaked in FY 1995-1996. At that time our official enrollment was 30,875 students. Since then our enrollment trends have declined below this level. Exclusive of hurricane-related enrollment, several factors probably contributed to the gradual decline in enrollment:

1) Federal census information indicates that many families are leaving the state of Louisiana;
2) The State Department of Education data states that non-public school enrollment has increased significantly in recent years;
3) Many students are participating in the at-home schooling program; and
4) The birth rate is less now than in earlier years.

Aside from our natural enrollment, we must take into account the new students we have welcomed into our parish. Shortly after the hurricanes occurred, reports indicated that our school system was serving over 5,000 displaced students. This student count steadily decreased as displaced families were able to return to recovering areas of the state. Federal impact aid and FEMA monies helped the system absorb the financial costs of housing and educating these students for the duration of the 2005-2006 school year.

Our school system ended the fiscal year with approximately 1,000 displaced students. We expect to retain about 500 to 700 of these displaced students in the 2006-2007 school year; however, we are no longer receiving impact aid for these students. If the decline in our natural enrollment continues and if more hurricane-related relocations to Lafayette Parish do not become permanent, our school system may be faced with two serious problems.

First, approximately half of our revenue is based upon student enrollment. That is, state MFP revenues can be expected to decline proportionately with student enrollment. Second, as fewer children are involved in public instruction, our connection to the community may be weakened.

Debt Service

Total annual debt service will be approximately $14,020,011 in FY 2006-2007. In recent years, we have been financing busses, computers, portable buildings and roof repairs. Providing for such needs should be on a pay-as-you-go basis. Last year, we were able to use federal hurricane aid and increases in sales tax revenues to help fund capital items, thus avoiding financing these items. Overall spending needs to be properly balanced in terms of our operational needs and priorities. Recent increases in volatile sales tax collections need to be used to fund normal recurring capital needs.

Health Care

Our Group Insurance Fund accounts for the costs of health care for our staff, retirees, and their families. In recent years, the cost of the health care program has increased dramatically by almost 90% in the last ten years. These large annual increases, which are far in excess of the of the economy's inflation rate, will undermine compensation adjustments. These cost increases are largely due to inflation in the health care industry but also are due in part to higher utilization by plan participants. In addition, changes in accounting for these plans will soon require the accrual of the costs of providing health insurance after retirement in the fiscal years in which the employee earns that benefit. This will have a tremendous financial effect on all health plans in the country that provide such a benefit. Eventually, we will have to make substantial adjustments in either in the structure of our health care program or in the funding of the program. This issue is at a crisis proportion, and must be addressed soon.

Property Taxes and Infrastructure

The system's property tax millage rates have declined slightly in recent years. The school system collects revenue from four millages in Lafayette Parish. One of these millages, the Consolidated School District No. 1 Sinking Fund, is used to pay down debt that was issued 20 years ago. As this debt is paid down, the corresponding millage rate is reduced each year. The debt associated with this millage will be retired in fiscal year 2009. This will have a negative impact on the MFP funding formula which takes into account the district's "local effort" factor. This factor is in place to measure a district's efforts at taxing itself. Districts that tax themselves heavier typically receive more MFP benefit.

Our district needs to explore options and develop a plan to address the capital and infrastructure needs of the system for the next 25 years. Funding of this plan could be accomplished by going to the voters and asking them to issue bonds to be paid by a new property tax millage to replace the aforementioned sinking fund millage that will expiring in 2009 .

Fund Balance

Our fund balance peaked in FY 1997-1998 with a balance of $22,727,711. Since then our fund balance has fallen each year because we have been experiencing annual operating deficits. Due to increases in sales tax collections and federal hurricane aid we expect to have a surplus of about $6,500,000 in the General Fund for the fiscal year ended June 30, 2006. This will help increase the fund balance to get closer to the goals set by the Board.

The School Board has a policy which requires a free fund balance of 8% of budgeted operating expenses. Therefore, the policy requires a free fund balance of approximately $16,000,000 at the end of FY 2005-2006. In such cases, the policy requires us to set aside $500,000 annually in order to comply with this policy. This year we have $750,000 in the budget to address this issue.

Subsidizing Grants

There are many instances where worthwhile programs are secured via grant funding. Grants afford the district the opportunity to provide additional specialized services for our students, often addressing crucial needs that otherwise could not be implemented. However, grants usually require that our school district put forth a portion of financial effort, whether it be in-kind contributions or actual monetary funds. Two examples of grants subsidization are:

1. The Pre-K Gant.
   The Truman facilities, utilities, several staff, and numerous bus routes are being paid for by the General Fund at a cost of over $1,000,000.

2. The K-12 Reading Grant.
   This grant has been reduced in recent years. Both the General Fund and Title I program have subsidized staff expenditures for this program. Currently, the General Fund is carrying 10 reading facilitators at a cost of almost $500,000.

2002 Teacher Tax Fund

The 2002 Teacher Tax is providing the 11.3% raise as planned for classroom teachers. In addition it is providing a step increase for the fiscal years 2006-2007. It is also fully funding approximately 124.5 teaching/counseling positions. Due to increased sales tax collections, the 2002 tax met the administrative goal of a $5,000,000 fund balance to buffer against possible future downturns in sales tax collections. As a result, the estimated excess of fund balance was paid out to teachers in a one-time supplemental payment of $1,170 in May of 2006. In the FY 2006-2007 budget, we are projecting net revenues of $19,539,378 and expenditures of $18,874,112, causing a positive adjustment to the reserve fund of $665,266.

Acknowledgements

Development of the FY 2006-2007 budget document was a challenging task which required the collaboration of many staff members. Although we have very limited staff resources available, we have fashioned a budget document which should provide very informative to interested parties.

I would like to acknowledge my sincere appreciation to everyone in the school system for their assistance in completing this task. I would like to personally acknowledge and thank several key staff members. Without their tireless and determined efforts, this budget document would not be possible. They are:

Stephanie Richard	Ronnie Bertrand	Yvonne Menard	Bob Simpson
Jacqueline Snow	Jennifer Nestor	Shaun Leger	Carl Meche
Mona Bernard	Mark Sibille	Carol Gaines	Lisa Russell
Olanda Gray	Suzanna Boyd		

Additionally, I would like to thank Mr. Jules Gaudin, our former Deputy Superintendent and Chief Financial Officer for his involvement in developing the budget and facilitating numerous budget workshops. Mr. Gaudin retired from our school system in July of this year. His leadership was an incredibly valuable asset to our organization in all aspects of business department operations and he will be greatly missed.

I would also like to thank my colleagues on the School Support Team for their assistance and cooperation in gathering data and facilitating efforts in balancing and re-balancing the budget prior to its formal presentation and adoption.

Finally, I would like to thank the superintendent and the members of the School Board for their leadership and support in the budget process.

Sincerely,

Matthew Dugas

Matthew Dugas, CPA
Director of Finance and
Acting Chief Financial Officer

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Lafayette Parish School System

Principal Officials

School Board Members

(All Board Members are in Office for the Same Four-Year Term
January 1, 2003 through December 31, 2006)

John Earl Guidry, District 1
Carl LaCombe, District 2
Rickey Hardy, District 3
Edward J. Sam, District 4
Michael Hefner, District 5
Beverly Wilson, District 6
David Thibodaux, District 7
Judy Cox, Vice President, District 8
Kay Gibson, President, District 9

Administrative Officials

James H. Easton, Ed.D.
Superintendent and Board Secretary-Treasurer

Matthew Dugas, CPA
Director of Finance and Acting Chief Financial Officer

Burnell Lemoine
Deputy Superintendent and Chief Academic Officer