

MEMORANDUM



DATE: October 25, 2015
TO: House Appropriations Subcommittee on School Aid
FROM: Bethany Wicksall, Associate Director
RE: Detroit Public Schools Budget Trends

In preparation for subcommittee tomorrow, I am providing you with a summary of Detroit Public Schools' (DPS) current fiscal situation, a summary of historical trends in the district's budget, as well as a brief history of the changes in the district's budget authority and governance.

Current Fiscal Condition

DPS has ended the year with a negative general fund (GF) balance each year since 2004, except for two years in which the district converted operating debt into long-term debt leaving what looks like a positive balance. The district's cumulative GF deficit is expected to grow from \$169 million at the close of FY 2014 to \$262 million when the books are closed for FY 2015. The district's FY 2016 budget assumes the GF deficit will grow by another \$96 million for the current school year.

The district has managed these consistent operating debts by borrowing initially using the short-term state aid note (SAN) program through the Michigan Finance Authority (MFA) and then later converting short-term debt into longer-term debt. The debt was issued through the MFA with the DPS state school aid payments serving as the repayment pledge. This was not borrowing from the state. Rather, it was borrowing facilitated by an authority of the state.

In 2005, the district was allowed to refinance its operating deficit totaling \$210 million by converting the short-term debt to long-term debt and issuing bonds with a repayment date of 2020. This action was part of the district's multi-year deficit elimination plan under the mayoral-appointed school reform board created in PA 10 of 1999. In 2012, the state-appointed emergency manager for the district refinanced the outstanding portion on the 2005 bonds (\$141 million) to take advantage of lower interest rates. The maturity date of the bonds remained 2020. In 2011, as part of the emergency manager's plan to address the operating deficit, DPS was again authorized to refinance its outstanding 2011 short-term debt into long-term debt by issuing \$231 million in 10-year bonds.

In August 2014, DPS borrowed \$107.8 million through the short-term SAN program. Due to cash flow issues, DPS restructured the outstanding debt (\$82.8 million) in May 2015 and moved back the maturity date to August 2016.

The following table summarizes the outstanding refinanced/restructured SAN program debt owed by DPS as of July 2015.

Series	Remaining Principal Balance	Final Maturity
2011	\$161,365,000	6/1/2021
2012	\$89,925,000	6/1/2020
2015	\$82,800,000	6/1/2016
TOTAL	\$334,090,000	

Last month DPS borrowed \$121.2 million under the short-term SAN program with the anticipation that an additional \$80.0 million would be needed in June 2016. It is unclear whether the SAN program will be an

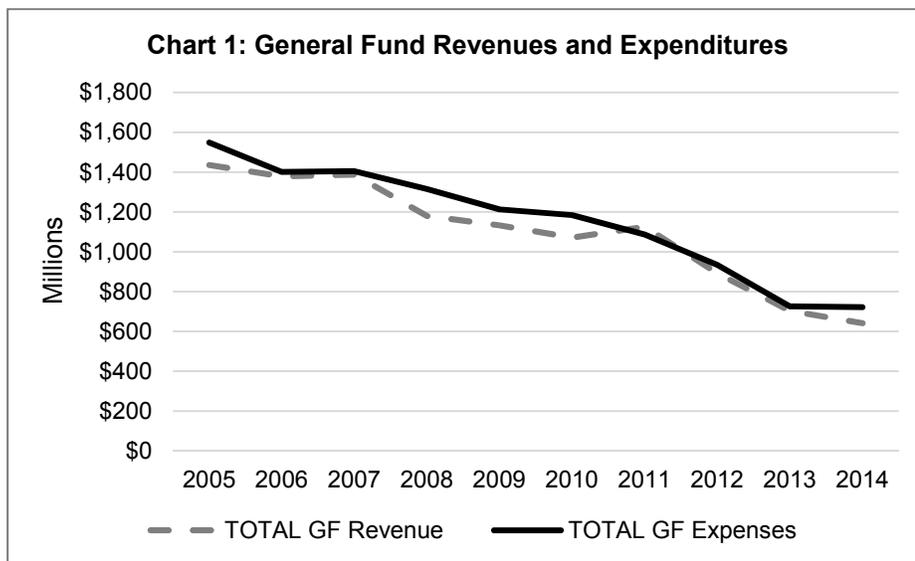
available borrowing method for DPS at that time, because the district may not have enough cash flow in state aid payments to back any further borrowing. If not, the Department of Treasury would have to authorize an alternative method of borrowing, likely tax-anticipation notes. At this time Treasury indicates there are no further multi-year restructurings planned for outstanding DPS SAN program borrowing.

Historical Budget Trends

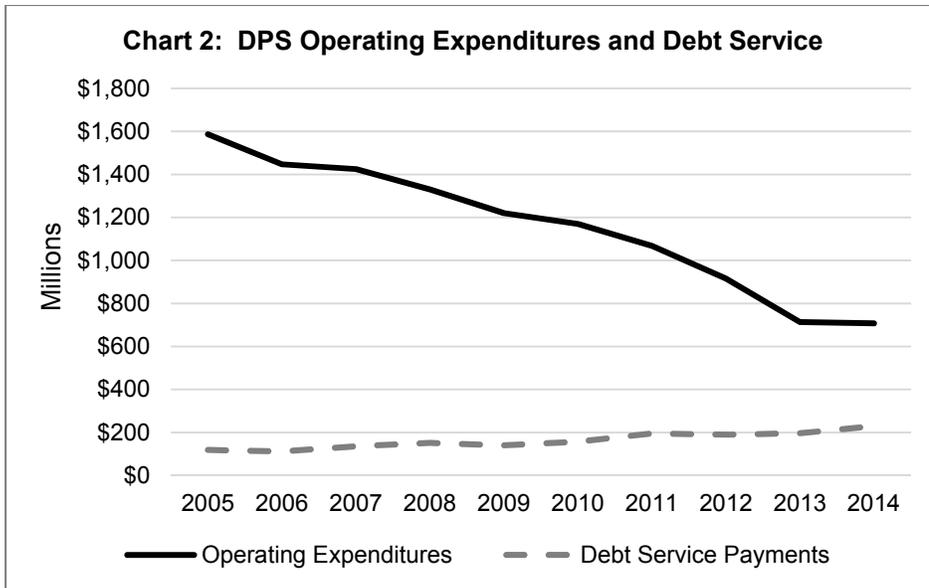
Using primarily DPS Comprehensive Annual Financial Reports (CAFRs)¹, along with supplemental information from Michigan Department of Education (MDE) and Office of Retirement Services (ORS) reports, the Appendix provides a 10-year history (FY 2005 - FY 2014) on several key budget trends. The appendix is not exhaustive. Major trends are summarized below.

Total General Fund Revenues and Expenditures

- Total GF revenues have decreased by 55% from \$1.4 billion to \$642 million.
- Total GF expenditures have decreased by 53% from \$1.5 billion to \$721 million.
- Total operating expenditures (excluding debt service and capital outlay) have decreased by 55% from \$1.6 billion to \$707 million.
- Debt service payments have nearly doubled from \$119 million to \$230 million.
- The ratio of debt service to non-capital expenses has increased from 7.0% to 24.6%.

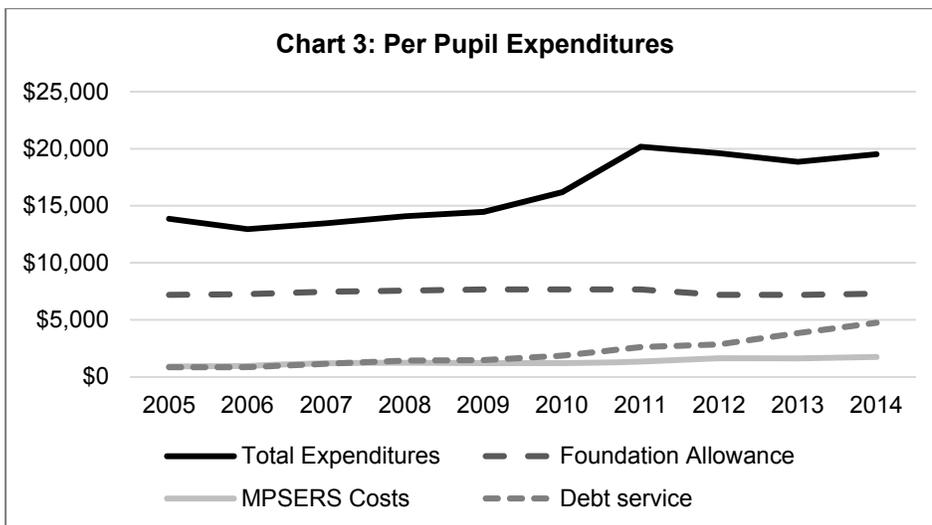


¹ DPS CAFRs are available online here: <http://detroitk12.org/data/finance/>.



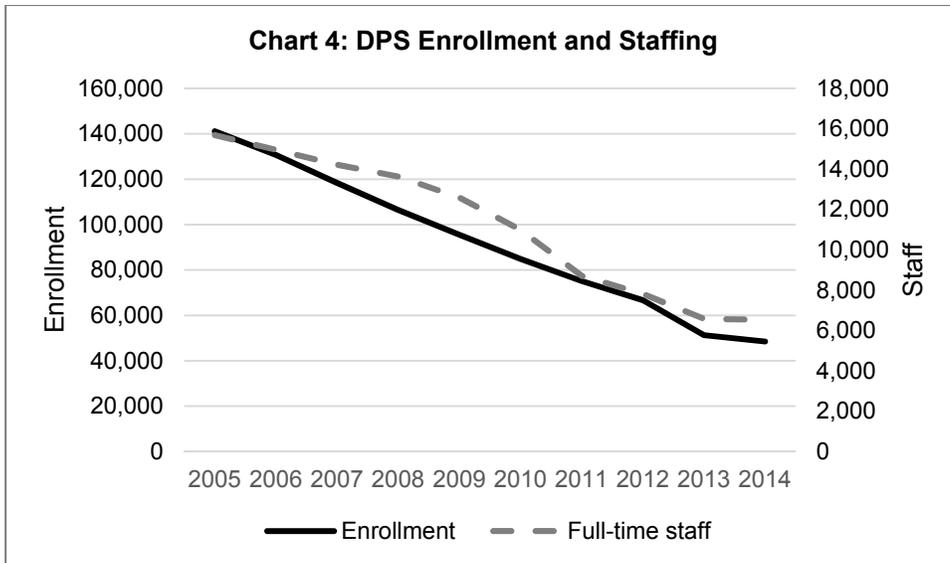
Per Pupil Costs

- Total expenditures per pupil have increased by 41% from \$13,861 to \$19,526.
- Debt service payments per pupil have more than quadrupled from \$842 to \$4,740.
- District-paid MPERS costs per pupil have nearly doubled from \$893 to \$1,736.
- During the same period, the per pupil foundation allowance has increased 1.6% from \$7,180 to \$7,296.



Enrollment and Staffing

- Enrollment has dropped by 66% from 141,148 to 48,511.
- Full-time staff positions have been reduced by 58% from 15,693 to 6,535.
- Part-time staff positions have been reduced by 81% from 2,633 to 493.
- The number of teaching staff has declined by 58% from 8,149 to 3,398.
- Administrative staff, including school principals and assistant principals, has dropped by 40% from 583 to 350.
- The number of open school buildings has been reduced by 60% from 255 to 103.



Budget Authority/Governance

Typically a school district’s elected school board determines a district budget. However changes in governance in DPS since 1999 have vested that authority in other bodies or individuals.

Historically due to its size, DPS was considered in statute to be a school district of the first class². As such, it is allowed to have a different board make-up than other local school districts with the board including 11 members: 4 elected at-large and 7 elected in individual voting subdivisions of the district.

In March, 1999, PA 10 was enacted to create a school reform board with 6 members appointed by the Mayor of Detroit and a 7th member, the state Superintendent of Public Instruction, to replace the district’s 11-member board. The school reform board was in place until, pursuant to its enacting legislation, voters approved the return to the prior board structure with newly elected members beginning January 1, 2006.

In March, 2009, the Governor appointed the district’s first Emergency Financial Manager (EFM), Robert Bobb, under PA 72 of 1990. The EFM was given broader powers under PA 4 of 2011, which was subsequently repealed in a statewide referendum in November, 2012, and replaced by PA 436 of 2012. Under PA 436, the EFM became an Emergency Manager (EM). Since Mr. Bobb’s initial appointment, there have been 3 succeeding EMs, including the current EM, Darnell Earley, who began his term in January, 2015. While the district has an EM in place, its elected board remains, but has limited powers, and the EM has authority over the district’s budget.

Please do not hesitate to contact me if you have questions or would like further information.

² The Revised School Code currently defines a district of the first class as a district with a pupil membership greater than 100,000. This has not been true of DPS since FY 2008, but the DPS board is still organized as if it were.

Appendix: Detroit Public Schools - Historical Budget Trends

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Change since 2005
REVENUES											
General Fund:											
Local	\$167,084,062	\$174,770,593	\$196,808,961	\$202,521,320	\$184,735,024	\$176,123,534	\$154,144,645	\$150,036,868	\$115,123,324	\$126,426,524	
State	\$1,024,334,845	\$972,484,297	\$913,734,458	\$810,766,781	\$725,395,990	\$609,792,579	\$556,435,197	\$495,366,418	\$408,734,474	\$353,056,789	
Federal	\$244,634,339	\$232,094,003	\$277,370,294	\$166,697,186	\$223,033,944	\$285,842,503	\$415,119,634	\$247,048,812	\$179,474,855	\$162,383,151	
Subtotal General Fund Revenues	\$1,436,053,246	\$1,379,348,893	\$1,387,913,713	\$1,179,985,287	\$1,133,164,958	\$1,071,758,616	\$1,125,699,476	\$892,452,098	\$703,332,653	\$641,866,464	-55.3%
Bond Redemption Revenues	\$7,088,931	\$6,772,581	\$114,671,038	\$125,141,494	\$126,359,445	\$90,564	\$781,710	\$125,130,604	\$108,969,511	\$150,255,742	
Nonmajor Governmental Funds	\$150,072,081	\$158,901,030	\$45,099,024	\$40,335,932	\$38,185,716	\$138,876,327	\$129,333,330	\$44,293,022	\$42,361,985	\$46,290,114	
TOTAL GOVERNMENTAL REVENUES	\$1,593,214,258	\$1,545,022,504	\$1,547,683,775	\$1,345,462,713	\$1,297,710,119	\$1,210,725,507	\$1,255,814,516	\$1,061,875,724	\$854,664,149	\$838,412,320	-47.4%
EXPENDITURES											
General Fund:											
Instruction	\$878,408,647	\$773,046,823	\$774,288,861	\$724,697,732	\$691,555,408	\$653,879,283	\$570,944,813	\$512,527,707	\$360,997,638	\$346,100,939	
Support services	\$652,896,930	\$614,815,850	\$597,198,103	\$558,235,588	\$483,804,795	\$470,532,656	\$456,746,498	\$360,893,321	\$303,272,788	\$312,753,894	
Community services	\$5,729,048	\$4,804,658	\$8,388,184	\$6,189,193	\$6,145,431	\$6,298,430	\$7,001,886	\$4,590,852	\$5,908,567	\$4,198,638	
Athletics	--	--	--	--	--	--	\$784,915	\$1,843,774	\$1,086,674	\$1,626,152	
Debt Service Capital Outlay	\$11,804,649	\$8,131,939	\$25,132,433	\$25,950,626	\$31,408,947	\$53,693,625	\$50,835,248	\$54,461,852	\$54,292,203	\$56,574,780	
Subtotal General Fund Expenditures:	\$1,548,839,274	\$1,400,799,270	\$1,405,007,581	\$1,315,073,139	\$1,212,914,581	\$1,184,403,994	\$1,086,313,360	\$934,317,506	\$725,557,870	\$721,254,403	-53.4%
Bond Redemption Fund Expenditures	\$220,729,244	\$109,922,972	\$137,313,610	\$139,728,594	\$126,728,611	\$13,700,822	\$163,034,292	\$243,379,396	\$144,031,428	\$173,463,268	
Nonmajor Gov't'l Fund Expenditures	\$186,950,691	\$181,028,733	\$52,336,452	\$44,336,903	\$40,899,099	\$175,379,875	\$267,311,903	\$130,348,576	\$97,429,995	\$52,505,611	
TOTAL GOVERNMENTAL EXPENDITURES	\$1,956,519,209	\$1,691,750,975	\$1,594,657,643	\$1,499,138,636	\$1,380,542,291	\$1,373,484,691	\$1,516,659,555	\$1,308,045,478	\$967,019,293	\$947,223,282	-51.6%
Other General Fund Financing	\$208,264,655	(\$3,318,208)	\$2,234,322	(\$859,482)	\$504,956	\$4,325,532	\$3,983,834	\$249,491,339	\$4,646,677	\$3,809,556	
Annual General Fund Surplus/(Deficit)	\$95,478,627	(\$24,768,585)	(\$14,859,546)	(\$135,947,334)	(\$79,244,667)	(\$108,319,846)	\$43,369,950	\$207,625,931	(\$17,578,540)	(\$75,578,383)	
Cumulative General Fund Balance/(Deficit)	\$46,791,278	\$22,022,693	(\$3,777,418)	(\$139,724,752)	(\$218,969,419)	(\$327,299,265)	(\$283,929,315)	(\$76,303,384)	(\$93,881,924)	(\$169,460,307)	
Total Expenses per pupil (including debt service)	\$13,861	\$12,942	\$13,469	\$14,078	\$14,457	\$16,182	\$20,181	\$19,598	\$18,844	\$19,526	40.9%
Total Operating Expenses (excluding debt service)	\$1,586,659,192	\$1,447,382,665	\$1,424,921,672	\$1,330,196,819	\$1,220,054,459	\$1,169,738,265	\$1,067,536,984	\$915,495,622	\$712,922,213	\$707,461,081	-55.4%
Operating Expenses per pupil	\$11,241.10	\$11,073	\$12,035	\$12,492	\$12,776	\$13,782	\$14,205	\$13,716	\$13,892	\$14,584	29.7%
Debt Service Payments	\$118,904,831	\$112,374,226	\$136,206,793	\$151,370,288	\$140,608,888	\$157,482,455	\$196,014,420	\$190,248,900	\$197,028,864	\$229,932,112	93.4%
Debt Service per pupil	\$842	\$860	\$1,150	\$1,422	\$1,472	\$1,855	\$2,608	\$2,850	\$3,839	\$4,740	462.6%
Ratio: Debt Service to Non-Capital Expenditures	6.97	7.20	8.72	10.22	10.30	11.89	15.49	17.18	21.63	24.58	

Source: DPS CAFRs

Notes:

1. The 2007 cumulative general fund deficit is shown as restated in the 2008 CAFR; however, the detailed revenues and expenditures were not provided in the restatement, and thus the column does not sum.
2. Prior to 2011, Athletics expenditures were counted under nonmajor governmental fund expenditures.
3. Depending on the year and accountant, some bond redemption revenue and expenditures fluctuate between bond redemption funds and nonmajor governmental funds.

Appendix: Detroit Public Schools - Historical Budget Trends

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Change since 2005
Foundation Allowance	\$7,180	\$7,259	\$7,469	\$7,557	\$7,660	\$7,660	\$7,660	\$7,190	\$7,190	\$7,296	1.6%
Enrollment	141,148	130,718	118,394	106,485	95,494	84,877	75,152	66,745	51,318	48,511	-65.6%
Free Lunch Percentage	73%	71%	74%	72%	73%	81%	78%	80%	77%	81%	
Graduation Rates			58%	58%	60%	62%	60%	65%	65%	71%	
Teaching Staff	8,149	7,628	7,064	6,269	5,797	5,222	4,982	4,396	3,398	3,398	-58.3%
Admin, Managers, Principals, Asst. Principals	583	601	583	537	533	452	439	401	375	350	-40.0%
Full-time staff	15,693	14,961	14,223	13,633	12,593	10,989	8,714	7,818	6,586	6,535	-58.4%
Part-time staff	2,633	2,318	1,785	1,106	791	751	691	551	482	493	-81.3%
DPS Pupil-Teacher Ratio (Bulletin 1014)	27	28	26	27	26	29	24	25	32	28	
State Avg. Pupil-Teacher Ratio (Bulletin 1014)	22	23	23	23	22	23	23	23	23	23	
Open School Buildings (CAFR AYP data)	255	222	224	198	163	159	133	122	113	103	-59.6%
School Building and Site Bonds	\$1,462,447,643	\$1,410,854,681	\$1,346,402,296	\$1,309,906,692	\$1,271,181,088	\$1,546,284,681	\$1,713,324,681	\$1,656,414,681	\$1,682,260,941	\$1,608,777,926	10.0%
2005 Revenue Bond Balance	\$210,000,000	\$210,000,000	\$200,400,880	\$191,025,666	\$180,464,033	\$168,565,000	\$155,165,000	\$0	\$0	\$0	
State Aid Anticipation Note Balance							\$231,000,000	\$372,624,926	\$336,624,926	\$298,857,734	
School Bond Loan Fund Balance	\$32,292,166	\$33,610,423	\$33,709,997	\$13,769,339	\$10,130,729	\$7,048,042	\$48,711,003	\$76,444,630	\$108,054,546	\$161,720,750	
MPSERS Payroll	\$803,102,062	\$756,481,066	\$777,735,177	\$794,174,568	\$689,290,397	\$598,273,590	\$490,340,300	\$453,329,815	\$335,202,833	\$340,426,467	-57.6%
Annual MPSERS Required Contribution	\$126,059,389	\$123,025,791	\$137,338,828	\$132,914,609	\$113,964,136	\$101,236,778	\$100,189,189	\$108,334,977	\$82,605,334	\$84,214,152	-33.2%
MPSERS Avg. Contribution Rate	15.70%	16.26%	17.66%	16.74%	16.53%	16.92%	20.43%	23.90%	24.64%	24.74%	
MPSERS per pupil	\$893	\$941	\$1,160	\$1,248	\$1,193	\$1,193	\$1,333	\$1,623	\$1,610	\$1,736	94.4%
Property Assessments											
Commercial and Industrial	\$2,224,494,259	\$2,305,221,321	\$2,403,532,121	\$2,637,024,764	\$2,761,560,896	\$2,797,752,487	\$2,698,852,119	\$2,794,557,203	\$2,588,946,917	\$2,490,320,049	
Residential	\$4,677,470,919	\$4,943,143,580	\$5,240,724,042	\$5,615,394,554	\$5,660,265,286	\$5,291,054,707	\$4,896,647,203	\$4,591,718,704	\$4,265,567,182	\$3,948,185,909	
Total	\$6,901,965,178	\$7,248,364,901	\$7,644,256,163	\$8,252,419,318	\$8,421,826,182	\$8,088,807,194	\$7,595,499,322	\$7,386,275,907	\$6,854,514,099	\$6,438,505,958	-6.7%
Total Tax Rate	31.000	30.624	31.000	31.000	30.831	30.831	30.933	31.131	30.928	31.142	
NHS Operating	18.000	17.554	18.000	18.000	17.831	17.831	17.831	17.831	17.831	18.000	
Debt	13.000	13.000	13.000	13.000	13.000	13.000	13.000	13.000	13.000	13.000	
Judgement Levy	0.000	0.070	0.000	0.000	0.000	0.000	0.102	0.300	0.097	0.142	
City Population (US Census)	864,434	836,056	834,116	916,952	912,062	910,921	713,777	706,585	701,475	688,701	-20.3%
City Unemployment Rate (BLS)	7.1%	7.4%	7.2%	8.7%	15.2%	14.3%	24.4%	18.3%	18.6%	16.4%	

Source: DPS CAFRS, MDE, ORS