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DETROIT AND WAYNE COUNTY INTERMEDIATE SCHOOL DISTRICTS BALLOT ISSUES

On November 8, 1988, Detroit voters will be asked in three separate ballot questions to renew four extra-voted mills of property tax for school operations, to add another six mills for operations, and to authorize the issuance of up to \$160 million of unlimited tax, deficit financing bonds. In addition, the Wayne County Intermediate School District is again requesting approval of a one mill increase to fund special education programs.

DETROIT SCHOOL BALLOT ISSUES

The Detroit School District currently levies a total of 41.40 mills for all purposes: 35.90 for operations (8.65 mills allocated, of which 0.64 mill is passed through to the Detroit Public Library; 27.25 mills extra-voted) and 5.50 mills for repayment of principal and interest on long-term debt. The various amounts of millage approved by voters for school operating purposes are shown below:

School District of the City of Detroit

Extra-Voted Mills	Years Duration	Expires as of June 30
4.00	5	1989
3.50	10	1990
3.00	10	1992
7.50	10	1994
2.25	8	1994
<u>7.00</u>	6	1994
27.25 Total		

The Fiscal Recovery Plan

The three requests for funding to be submitted to voters in November were among the five recommendations contained in the **Detroit Public Schools Fiscal Recovery Plan**, presented to the Detroit Board of Education Finance Committee by the general superintendent on September 1, 1988.

1. Continue and accelerate the identification, evaluation and implementation of measures that improve productivity, increase efficiency, and/or reduce cost in support and operational operations.
2. Beginning with the 1989-90 fiscal year, adopt a balanced budget each year that (a) fully funds all budgeted activities; (b) is timed to permit execution beginning July 1; (c) is in keeping with generally accepted accounting principles; and (d) provides appropriately for contingencies.
3. Place a \$160 million deficit elimination bond issue on the November 8, 1988 general election ballot. The proceeds of the bond issue will be used to retire the accumulated deficit.

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4. Place a six mill property tax increase on the November 8, 1988 general election ballot. The additional millage will be effective July 1, 1989 through June 30, 1994.
5. Place a four mill property tax renewal on the November 8, 1988 general election ballot to continue approximately \$58 million in current local property tax and matching state aid without interruption beginning in 1989-90. The renewal will be effective July 1, 1989 through June 30, 1994.”

4-Mill Renewal

Since the 4.0 mills expires on June 30, 1989, failure to approve the proposition would not affect revenues in the 1988-89 school year, but would necessitate a special election prior to July 1, 1989. Four mills applied to the current Detroit state equalized value of \$5,380 million produces a levy of \$21.5 million; at the collection rate of 91.5% currently used by the City of Detroit for budget purposes, this results in a current-year collection of \$19.7 million. The 4.0-mill levy produces an additional \$37 million in state aid. Because the Detroit Board of Education has historically budgeted the entire levy, rather than the net current-year collection and expected prior years' collections, the loss of 4.0 mills would have a budget impact of about \$58 million, or roughly 7.8% of the \$741.4 million budgeted as revenues for 1988-89.

The board has directed that renewal requests for extra-voted mills be scheduled to expire on June 30, 1994. The vote to renew in 1994 will consolidate all extra-voted mills. This removes the voters' ability to make incremental changes in existing extra-voted, millage support for the public schools.

Deficit Funding Bonds

In fiscal 1972, the Detroit School District's accumulated operating deficit reached \$70 million. At that time, the state legislature refused to bail out the school district and the solution for restoring financial solvency was the issuance of deficit bonds and the levy of 2.25 additional mills for debt service each year for six years, 1974 through 1979. The 2.25-mill levy required to repay the 1972 deficit did not require voter approval. Since adoption of the Headlee Amendment in 1978, voter approval has been necessary to levy taxes for debt service for deficit funding and other types of unlimited tax bonds.

The school district's general fund had a balance of \$1.5 million at the end of fiscal 1978. Since then, expenditures for current operations have exceeded current revenues in most years; the roll-over of annual deficits from one year to the next is cumulative, and has been sufficient to negate any annual excess of revenues over expenditures. The general fund accumulated deficits stated in annual reports were based on accounting policies specified by the **Michigan School Accounting Manual** and were less than would have been reported had the district followed generally accepted accounting practices (GAAP).

School District of the City of Detroit Accumulated General Fund Deficits as of June 30

1979	\$ 7.2 million
1980	13.8 million
1981	16.9 million
1982	36.4 million
1983	43.1 million
1984	49.6 million
1985	18.6 million
1986	18.1 million
1987	33.4 million
1988 (est.)	69.6 million

NOTE: Data from annual financial reports. 1987-88 annual report due Nov. 1988.

The 1988-89 budget assumes no new revenues. The **Detroit Public Schools Fiscal Recovery Plan** compares budgeted expenditures and revenues for 1988-89 with unaudited expenditures and revenues for 1987-88:

<u>Detroit Public Schools</u>			
<u>Amounts (In Millions)</u>			
	<u>1987-88</u>	<u>1988-89</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>
	<u>(unaudited)</u>		
Total Expenditures	\$776.9	\$778.8	\$1.9
Total Revenues	<u>740.7</u>	<u>741.4</u>	<u>0.7</u>
Gap	\$ 36.2	T37.4	\$1.2

“However, even with close monitoring, an unfavorable budget variance of only one half of one percent in revenues and the same in expenditures would be close to \$8 million overall. Accordingly, the projected operating deficit in 1988-89 is estimated to be between \$37 and \$45 million. Therefore, the projected accumulated budget deficit should not be more than \$114.6 million computed as follows:

1. Accumulated deficit as of June 30, 1988 (unaudited)	\$ 69,600,000
2. Projected 1988-89 operating deficit	<u>45,000,000</u>
3. Accumulated deficit as of June 30, 1989 (projected)	\$114,600,000

Tax delinquencies, with estimated penalties and interest, are recorded as receivables-- an asset on the books. At June 30, 1988, cumulative taxes receivable totaled \$44.5 million. On August 2, 1988, the City of Detroit sold \$20 million of delinquent school tax notes on behalf of the school district. The district estimates that cumulative taxes receivable at June 30, 1989, will be \$38.5 million.

In addition, the district carried \$5.1 million in school bus costs as an asset on the books at June 30, 1988. Generally accepted accounting principles require that school buses be recorded as an expense in the year of purchase; this would add an additional \$5.1 million to the deficit.

As noted, the unaudited fiscal 1988 deficit is \$69.6 million; the projected fiscal 1989 operating deficit of \$45 million will be added to the 1988 deficit for an estimated cumulative deficit of \$114.6 million at June 30, 1989. If generally accepted accounting principles were used, the deficit would increase by approximately \$38.5 million for estimated taxes receivable and \$5.1 million for school bus costs, to about \$158.2 million. Because the unlimited tax required to pay the debt service on the \$160 million deficit funding bonds will be treated as operating millage and will generate additional state general school aid of about \$1.75 for every \$1.00 levied, school officials estimate that levying 1 to 1.5 mills annually will be sufficient to retire the debt within the ten years allowed by state law. However, the state school aid is not earmarked to reduce the debt service and could legally be used for general fund operating purposes. If the \$160 million in deficit bonds are retired entirely from the unlimited tax that will be authorized by approval of the bonds, the annual tax levy would exceed four mills.

The Problem of the Building and Site Fund

In fiscal 1982, under the provisions of Public Act 273 of 1980, school officials transferred \$14 million from the building and site fund to the general fund for the purpose of financing current

operations. The funds transferred represented interest earned on investments from bond proceeds. In January of 1982, the state attorney general ruled that a school district may not use income from bond proceeds for financing current operations. Such action, according to the attorney general's opinion, violates the constitutional 15-mill tax limitation, the uniform accounting for school districts requiring that such funds be segregated and operated independently, and is in derogation of the contract with bondholders. Subsequent to that opinion, school officials transferred another \$5 million from the building and site fund to the general fund. In accordance with an agreement between the school district and the municipal finance commission regarding the issuance of bonds, the district has repaid \$3.5 million to the building and site fund. In the opinion of the district's legal counsel, the attorney general's opinion should not be applied to transfers made prior to its issuance. However, any deficit reduction plan should include, at a minimum, the uncontested remaining debt of \$1.5 million owed to the building and site fund.

Six New Mills

Item #4 of the **Fiscal Recovery Plan** would increase annual revenues to the school district by six mills, which would generate an increase in the levy of \$32.3 million, based on the current City of Detroit SEV of \$5,380.3 million. The six-mill levy would expire June 30, 1994. The district estimates the total increase in revenues, including state general school aid, to be about \$81.2 million in fiscal 1990 and \$88.6 million in fiscal 1991. The district also projects a fiscal 1989 deficit of \$65.6 million and a fiscal 1990 deficit of \$97.6 million, assuming no increases in state school aid, 35.90 operating mills, flat miscellaneous revenues, "modest" salary increases, and 3% non-salary increases. Thus, the district expects the six-mill increase will merely fund the same level of service that is currently being provided.

Conditional salary increases were negotiated by the Detroit Board of Education with the Detroit Federation of Teachers and the administrators' union. Scheduling the six-mill increase for July 1989 through June 1994 would preclude the district's ability to fund that conditional pay raise in 1988-89.

Revenues and Expenditures for Current Operations -- Five-Year Trend

From fiscal 1983 through fiscal 1987, school operating revenues increased by 27%. Of this \$157.7 million increase, \$127.1 million, or over 80%, was attributable to increased state aid. Increases in property tax collections for operations accounted for \$15.6 million, or less than 10%.

School District of the City of Detroit **Current Year General Fund Revenues**

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Property Tax	\$161,055,482	\$158,612,051	\$179,969,206	\$176,752,818	\$176,622,117
State Aid	299,110,346	326,270,876	375,668,461	414,352,415	426,232,454
Other General	24,096,822	23,484,888	25,274,939	24,475,399	22,028,587
Special Prog.	64,485,243	64,236,759	70,104,625	79,017,969	80,228,909
Auxiliary Ops.	30,537,678	29,200,862	28,985,500	28,916,104	31,877,848
Total	\$579,285,571	\$601,805,436	\$680,002,731	\$723,514,705	\$736,989,915

Current-year expenditures for the period increased by \$166.4 million, or 28.4%. The variations in the rate of increase for different categories of expenditures is striking: expenditures for Auxiliary Operations, primarily food service, increased by only 10.9%, while expenditures for Other Expenses, which is overwhelmingly employee benefits, increased by 50.4%. Expenditures for the category of Instruction increased by \$66.0 million, or 21.9%, which is less on a percentage basis than the total increase of 28.4%. Expenditures for Support Services increased by \$64.5 million, or 33.8%.

School District for the City of Detroit
Current Year General Fund Expenditures

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Instruction	\$301,563,098	\$312,392,177	\$331,735,423	\$342,872,312	\$367,542,973
Support Serv.	190,938,987	203,208,562	217,809,688	251,708,058	255,411,854
Auxiliary Ops.	28,003,583	26,359,915	26,016,295	27,423,037	31,051,970
Other Expense	65,350,467	70,536,928	73,437,522	97,633,058	98,276,774
Total	\$585,856,135	\$612,497,582	\$648,998,928	\$719,636,465	\$752,283,571

Thus, while revenues have grown substantially over the most recent five years for which data are available, expenditures have grown faster. In order to avoid the painful consequences of deficit budgeting, state law provides that a school district "shall not adopt or operate under a deficit budget, and a district shall not incur an operating deficit in a fund during a fiscal year." (A note in the Fiscal Recovery Plan states: "In the opinion of Board legal counsel, the approval by the Michigan Department of Education of the school district's deficit elimination plan allowed the Board to adopt a budget for 1988-89 that was not balanced on July 1, 1988.")

Detroit reported audited pupil membership of 195,871, or 11.8% of the 1,657,423 memberships (students) reported by 525 school districts in 1986-87 (the last year available from state bulletins 1011), and received 24.3% of the total state aid amount distributed to all school districts (\$427.8 million of \$1,762.8 million). Detroit SEV per member was \$26,302, only 41.2% of the state average of \$63,795, and fifth lowest in the state.

In 1986-87, the average Detroit teacher's salary was \$33,206, or 105.7% of the state average teacher's salary of \$31,412. In Detroit, the average teacher's salary increased over 30%, from \$25,525 to \$33,206, in the five-year period from fiscal 1983 to fiscal 1987. During that period, the number of students declined by 8.3%, while the number of teacher positions declined by 1.6%, decreasing the average number of students to each teaching position from 25.2 to 23.5.

In 1986-87, per pupil operating expenditures in the Detroit system were \$3,696, nearly 10% above the state average of \$3,368. Detroit ranked 92nd from the top among 525 school districts in expenditures per pupil in fiscal 1987. As will be noted from the tables following this text, Detroit's per pupil operating expenditures increased from \$2,596 to \$3,696, or 42.4% in the five years from 1982-83 to 1986-87.

WAYNE COUNTY INTERMEDIATE SCHOOL DISTRICT BALLOT ISSUE

On August 2, 1988, Wayne County Intermediate School District voters defeated a request for a one-mill increase in the existing one-mill allocation authorized by the voters for special education programs. The district is resubmitting that request to voters on November 8, 1988.

The additional \$20.6 million levy, which would generate another \$3 million in state school aid, would be used to fund special education programs and services for 35,000 handicapped students up to age 26. Prior to 1982-83, the one mill levy that had been approved in August 1974 had been sufficient to reimburse local school districts for the added costs of special education regional programs for low incidence students (the 6,000 students with infrequently occurring handicaps who are served by 36 center programs operated by 14 local districts and the Intermediate School District) and initially to partially support local programs for high incidence students (the 29,000 students with more common handicaps who are served within each of Wayne County's 34 local districts). Increases in the number of handicapped students served and in the severity of their

problems, and in mandated services and operating costs, resulted in elimination of support for local programs and the initiation of charge-backs to local school districts to cover a portion of the costs of their resident students' enrollment in regional programs. Center programs for low incidence students are dependent on three funding sources: gross membership aid covers about 25% of the costs; state categorical aid covers about 13% of the costs; and funds generated by the existing one mill, cover about 62% of the costs. The increased funding would be used to support regional programs and eliminate the charge-backs to local districts, estimated at more than \$9 million for the 1986-87 school year, and to reimburse local districts for some portion of the costs for their high incidence programs.

Detroiters currently pay 31.389 mills in City of Detroit property taxes, 41.4 mills for school taxes, and 10.36 mills for county taxes. School millage increases and bond issues being proposed on November 8, 1988, together with millage and bond issues that have already been approved, have the potential to raise that rate from 83.149 mills to well over 90 mills.

School District of the City of Detroit

<u>Fiscal Year</u>	<u>No. of Pupils</u>	<u>SEV Per Pupil</u>	<u>Per Pupil</u>		<u>General Fund Revenue from State Sources</u>	
			<u>General Fund Expenditures Detroit</u>	<u>State Average</u>	<u>Detroit</u>	<u>Statewide</u>
1971-72	289,341	\$19,789	\$1,044	\$937	40%	39%
1972-73	281,594	20,489	1,055	1,019	47	39
1973-74	267,742	21,650	1,170	1,131	42	39
1974-75	260,905	22,088	1,334	1,277	45	37
1975-76	253,982	22,088	1,474	1,395	45	35
1976-77	241,998	20,842	1,530	1,460	55	40
1977-78	233,049	21,168	1,782	1,646	54	39
1978-79	227,286	21,214	2,027	1,847	55	38
1979-80	224,358	22,225	2,265	2,077	55	35
1980-81	221,941	23,130	2,508	2,291	53	29
1981-82	218,074	24,085	2,727	2,498	53	30
1982-83	213,558	24,870	2,670	2,619	57	25
1983-84	210,331	24,614	2,811	2,834	59	27
1984-85	206,790	25,222	3,048	3,079	60	29
1985-86	203,574	25,375	3,445	3,356	62	31
1986-87	195,871	26,302	3,767	3,560	61	32

Source: State Department of Education, Bulletins 1011 and 1014

School District of the City of Detroit -- Millage Rates

Fiscal Year	Allocated Millage			Sub-Total Operations	Repay Oper. Debt	Long Term Debt	Total For All Purposes	SEV in Millions
	School	Library Pass Thru	Extra- Voted					
1971-72	8.26	0.64	12.50	21.40	-0-	3.255	24.655	\$5,719.2
1972-73	8.01	0.64	7.50	16.15	-0-	3.10	19.25	5,770.6
1973-74	8.01	0.64	14.50	23.15	2.25	3.04	28.44	5,806.7
1974-75	8.01	0.64	14.50	23.15	2.25	3.30	28.7b	5,762.4
1975-76	8.01	0.64	14.50	23.15	2.25	3.04	28.44	5,792.1
1976-77	8.01	0.64	14.50	23.15	2.25	3.78	29.18	5,046.4
1977-78	8.01	0.64	17.50	26.15	2.25	3.78	32.18	4,930.2
1978-79	8.01	0.64	17.50	26.15	2.25	3.88	32.28	4,852.5
1979-80	8.01	0.64	19.08	27.73	0.67	4.45	32.85	5,051.6
1980-81	8.01	0.64	23.25	31.90	-0-	4.80	36.70	5,227.4
1981-82	8.01	0.64	23.25	31.90	-0-	4.10	36.00	5,321.4
1982-83	8.01	0.64	23.25	31.90	-0-	5.00	36.90	5,366.8
1983-84	8.01	0.64	23.25	31.90	-0-	4.60	36.50	5,227.5
1984-85	8.01	0.64	27.25	35.90	-0-	4.50	40.40	5,271.7
1985-86	8.01	0.64	27.25	35.90	-0-	5.5b	41.40	5,230.7
1986-87	8.01	0.64	27.25	35.90	-0-	5.00	40.90	5,240.4
1987-88	8.01	0.64	27.25	35.90	-0-	5.50	41.40	5,323.9

NOTE: On November 4, 1986 voters authorized the issuance of \$162 million in general obligation bonds to purchase equipment, acquire and develop sites, and make permanent improvements to existing school buildings.

Fiscal Year	<u>School District of the City of Detroit</u>					
	<u>Number of Pupils</u>		<u>No. of Teaching Positions</u>		<u>Average Teacher's Salary</u>	
	<u>Detroit</u>	<u>State</u>	<u>Detroit</u>	<u>Statewide</u>	<u>Detroit</u>	<u>Statewide</u>
1971-72	289,341	2,212,505	10,032	91,190	13,747	11,671
1972-73	281,594	2,193,270	10,588	93,852	12,824	12,070
1973-74	267,742	2,159,966	10,411	94,221	13,928	12,852
1974-75	260,905	2,139,720	10,151	93,580	15,904	14,059
1975-76	253,982	2,127,917	9,718	92,677	17,238	15,064
1976-77	241,998	2,081,936	9,029	90,780	17,280	15,426
1977-78	233,049	2,023,944	9,429	90,312	17,832	16,445
1978-79	227,286	1,965,685	9,423	88,652	19,521	18,016
1979-80	224,358	1,910,385	9,726	87,487	20,960	19,663
1980-81	221,941	1,859,934	9,414	84,041	23,054	21,779
1981-82	218,074	1,792,331	8,702	78,447	26,901	24,304
1982-83	213,558	1,742,831	8,469	74,814	25,525	25,712
1983-84	210,331	1,712,103	8,397	74,312	26,865	27,104
1984-85	206,790	1,678,458	8,403	75,193	28,221	28,440
1985-86	203,574	1,666,281	8,528	76,166	30,795	30,067
1986-87	195,871	1,657,423	8,333	76,791	33,206	31,412

NOTE: Data from Michigan State Board of Education Bulletins 1011

School District of the City of Detroit

<u>Fiscal Year</u>	<u>Number of Pupils</u> Detroit as a % of State	<u>Teaching Positions</u> Detroit as a % of State	<u>Average No. of Pupils per Teacher</u> Detroit as a % of State	<u>Average Teacher's Salary</u> Detroit as a % of State
1971-72	13.1	11.0	118.5	117.8
1972-73	12.8	11.3	113.7	106.3
1973-74	12.4	11.1	112.2	108.4
1974-75	12.2	10.9	112.2	113.1
1975-76	11.9	10.5	113.5	114.4
1976-77	11.6	10.0	117.0	112.0
1977-78	11.5	10.4	110.3	108.4
1978-79	11.6	10.6	108.6	108.4
1979-80	11.7	11.2	106.0	106.6
1980-81	11.9	11.2	106.8	105.9
1981-82	12.2	11.1	110.1	110.7
1982-83	12.3	11.3	108.2	99.3
1983-84	12.3	11.3	108.7	99.1
1984-85	12.3	11.2	110.3	99.2
1985-86	12.2	11.2	109.1	102.4
1986-87	11.8	10.9	108.9	105.7