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Detroit Public Schools Finances – Progress Report

CRC Webinar
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www.crcmich.org

About Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
- *www.crcmich.org*

Craig Thiel, Senior Research Associate



- Michigan school finance expert
- More than one dozen years with Citizens Research Council
- Prior experience with:
 - House Fiscal Agency
 - Senate Fiscal Agency
 - MI Department of State
 - U.S. Environmental Protection Agency

Presentation Outline

- Recap – history, state intervention, and settling DPS debts
- Current financial health of “new” Detroit school district
 - Enrollment
 - Balanced budget
 - Positive cash flow
- Three challenges ahead for “new” Detroit school district
 - Forced school closures
 - Stabilize enrollment
 - Increase efficient use of school buildings

Recap – History, State Intervention and Settling DPS Debts

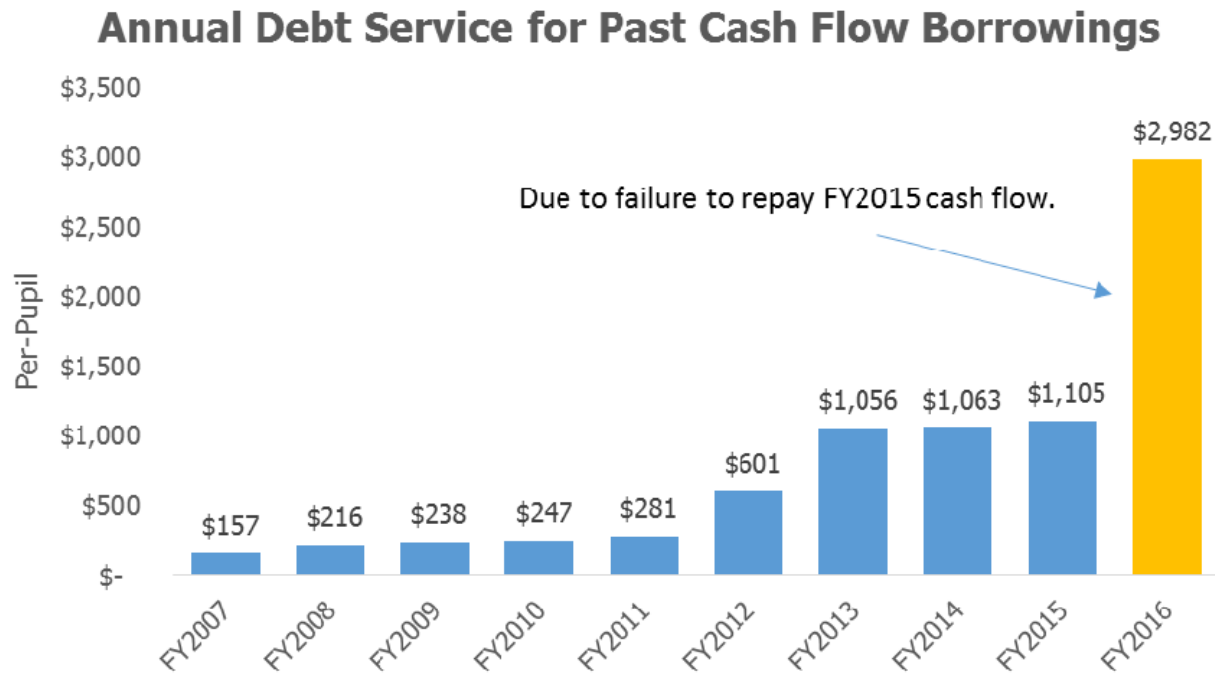
Financial Situation Facing DPS

Entering FY2016 district was on the brink of insolvency

- District operating in crisis mode
- Five state-appointed emergency managers since 2009; each unable to solve financial problem
- Academic performance at bottom
- General Fund deficit balloons from \$83M (FY2012) to \$216M (FY2015)
- Legacy debts total \$463M (refinancing of previous years' deficits)
- Ongoing cash shortages and unpaid vendors
- Massive annual student enrollment losses
- Aging and deteriorating capital facilities

Per-Pupil Debt Service Payment Grows

Additional debt and declining enrollment

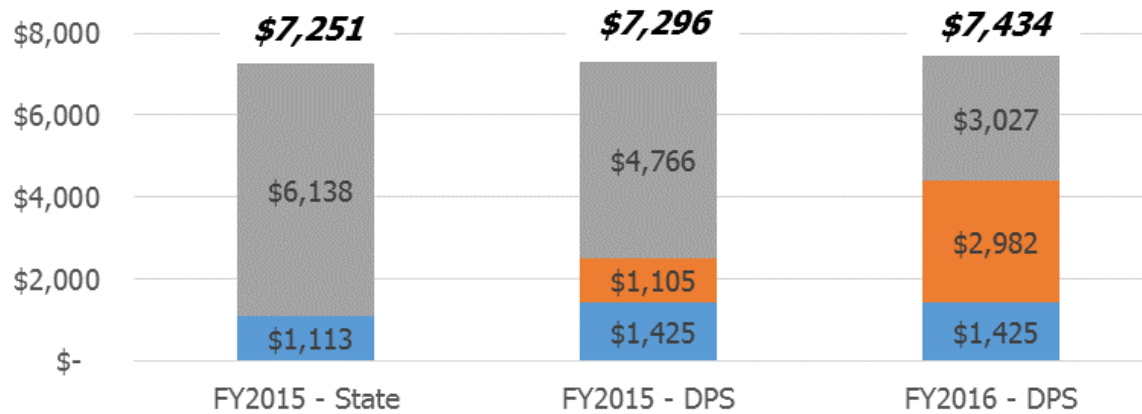


Source: DPS, Annual Financial Reports

Financing Legacy Costs

Accounts for 60% of Per-Pupil Grant in FY2016

Allocation of Per-Pupil Foundation Allowance



Allocated For:

- employee legacy costs
- debt service
- current operations

Source: Office of Retirement Services, DPS

2016 DPS Package

Combination of financial, governance, and management reforms

- Enacted in June 2016, effective July 1
- Split DPS into two entities
 - “New” district – responsible for educating students
 - “Old” district – service legacy operating debts and capital debts
- Locally-elected school board (January) and superintendent (May)
- Detroit Financial Review Commission oversight of DPSCD until legacy debts repaid in full
- Return Education Achievement Authority to DPSCD (July 2017)

Settling DPS

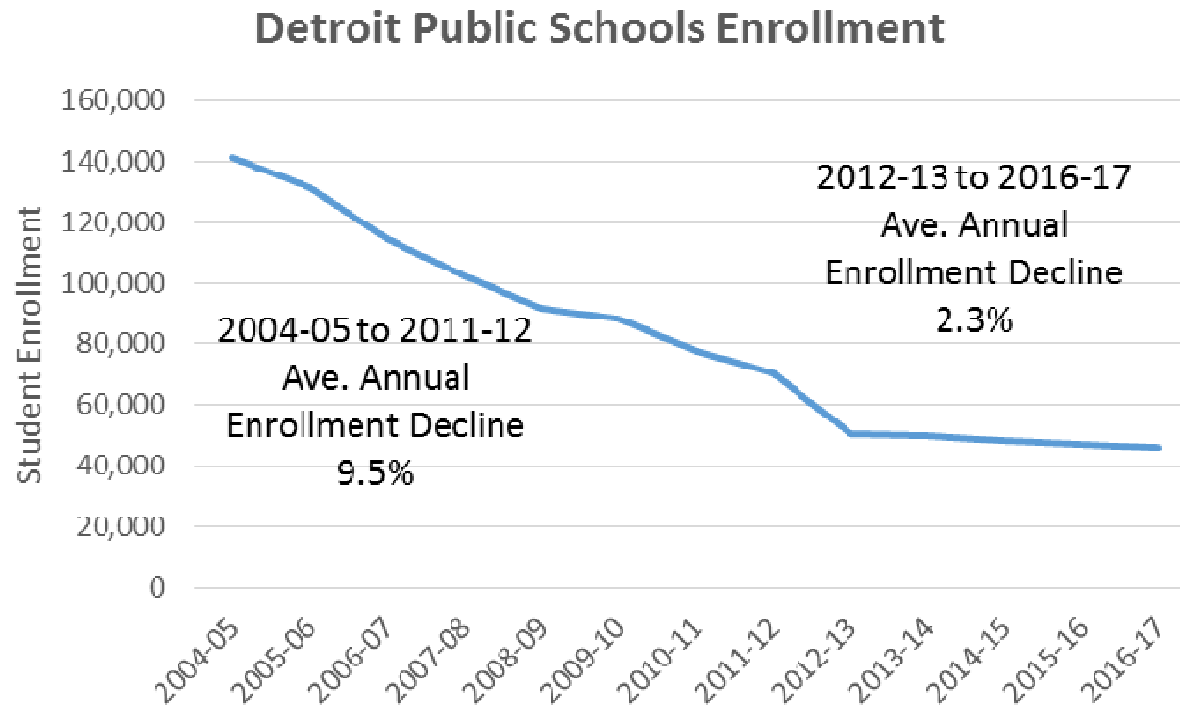
State-financed debt relief

- DPS legacy debts of approx. \$467M
 - Redirect DPS's 18-mill local school tax toward annual debt service costs
 - Multi-year commitment (\$66M in 2017)
- Additionally, \$150M state emergency loan in July to provide funds to pay vendors immediately
 - \$25M for DPSCD start-up costs
- To ensure that DPSCD receives its full per-pupil grant, state funds will be used to backfill the loss of 18-mill tax revenue
 - \$72M per year from state tobacco funds (up to \$617M total)

DPSCD Financial Health

Enrollment: Key Financial Indicator

Losses moderated since 2013

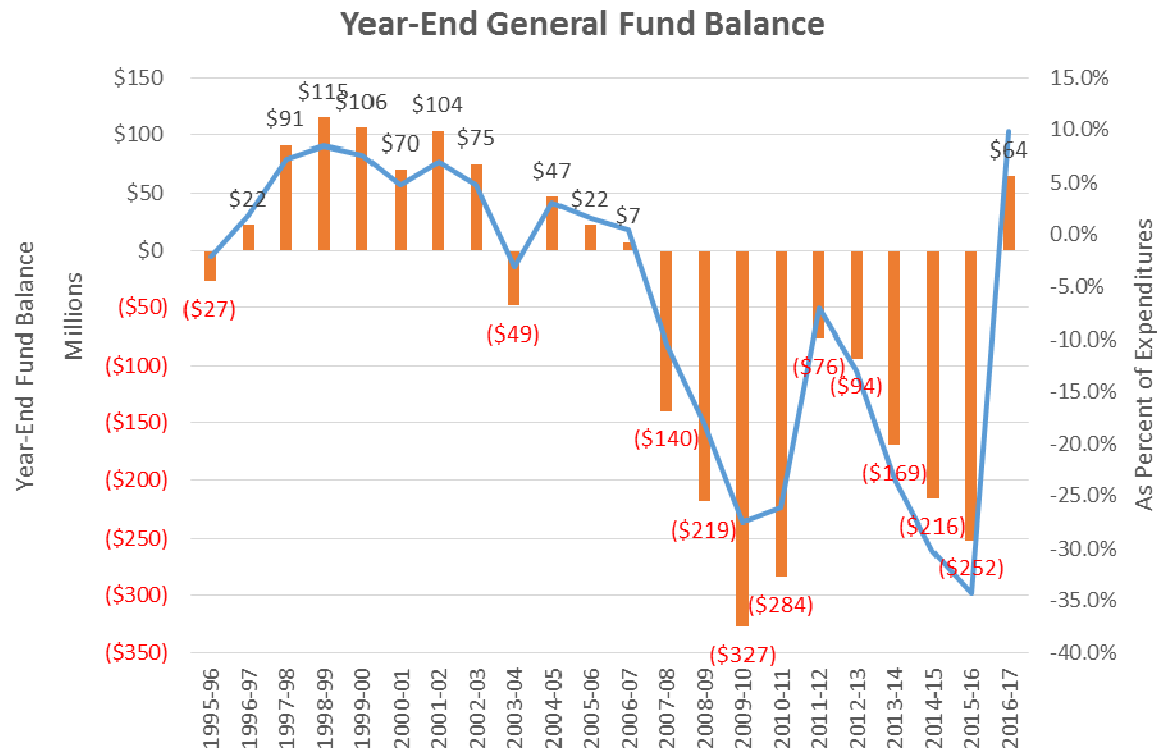


FY2017 Budget

Improvements due largely to one-time items

- Balanced budget and positive cash flow
- Projected year-end surplus of \$64M
- Benefitting from enactment of the regional enhancement millage
 - DPSCD's share \$17M (not included in original budget)
- Number of one-time items help, accounting for about two-thirds
 - Year-end transfer from DPS
 - State emergency loan
- Expenditures reflect over 200 position vacancies (134 teaching), which would add \$20M to budget if/when filled

First Surplus in 10 Years



Significance of Improved Finances

- Largely result of “fresh start” provided by state rescue package, coupled with improved management and state oversight
 - One-time items help with surplus, but can not be counted on long term
- Takes district out of “crisis” mode
- Direct more resources to classroom, no longer saddled with legacy debts
- Improved cash flow means vendors paid on time
 - Eliminates need to borrow from state in for 2017-18 school year

Challenges Ahead

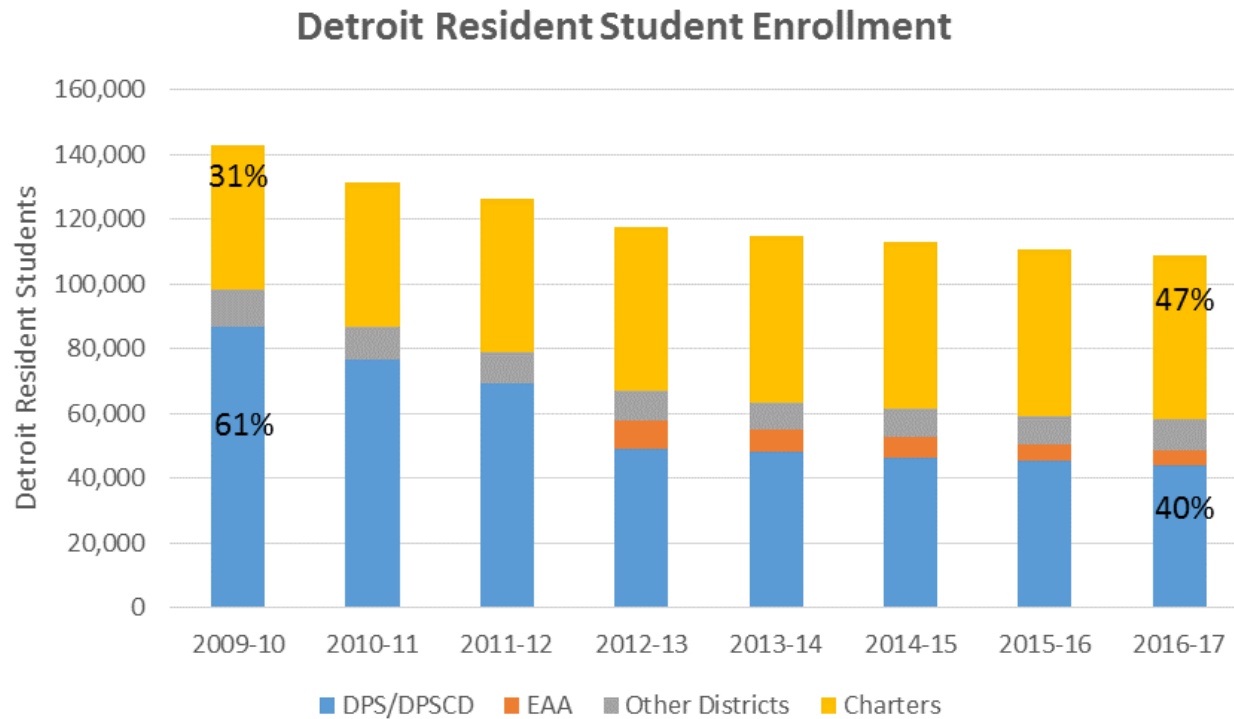
Forced School Closures

New “partnership” agreement provides breathing room

- In January, 24 DPSCD (and EAA) schools appeared on State School Reform Office list of potential forced closures
 - About one-quarter of DPSCD total enrollment
 - Represents potential serious financial blow to enrollment
- In April, State Superintendent announced new “partnership” agreement process for state’s lowest-performing schools
 - School Reform Office agreed to delay next level of accountability, including closure, for participating schools
 - Schools have through 2019-20 school year to meet benchmarks or Superintendent can call for next level of accountability

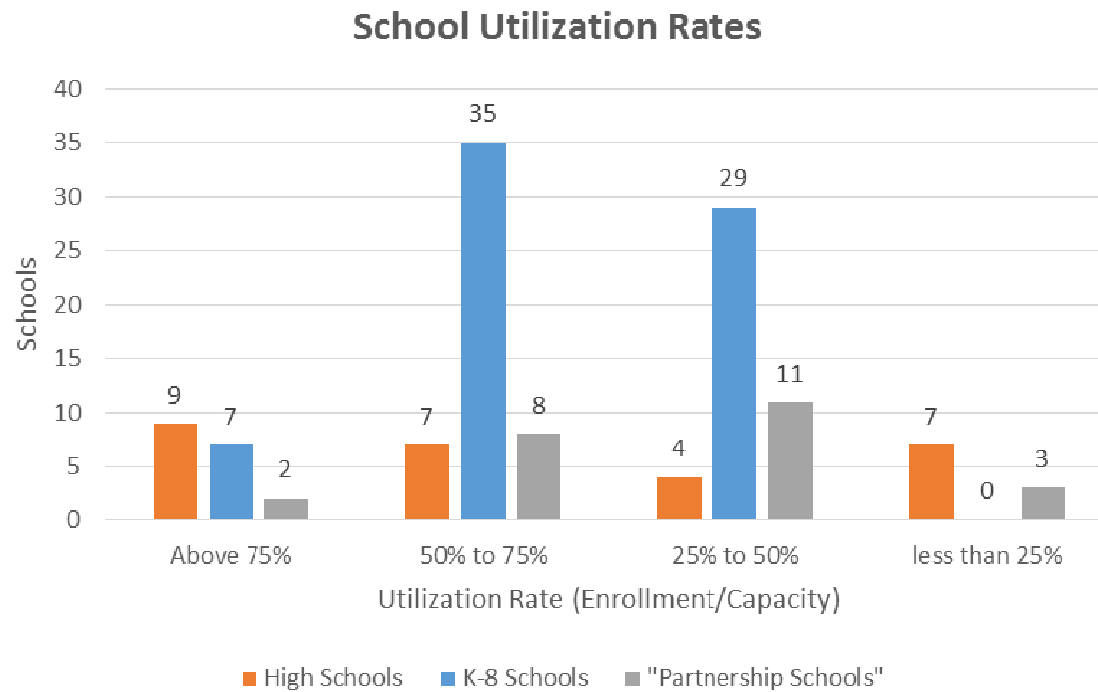
Stabilize Student Enrollment

Return of EAA schools in 2017-18 will add 5,000 students



Increase Efficiency of School Utilization

District continues to operate too many half-empty schools



Closing Thoughts

Detroit Must Build On “Fresh Start”

- Near-term financial picture solid with help from state rescue package – no longer operating in crisis mode
- Structural challenges facing district still persist and district leadership must tackle these head-on
- District has through 2019-20 school year to move academic needle, but signs of progress will be required sooner
- Further state financial intervention not likely anytime soon

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