



SEE IT BELIEVE IT
DETROIT PUBLIC SCHOOLS

Detroit Public Schools: *Shaping the Future*

**Michigan Association of School Administrators
Midwinter Conference – *Inspire, Connect, Equip 2016*
Renaissance Center Detroit Marriott**

January 28, 2016

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Executive Summary

- The Detroit Public School System has undergone tremendous change over the past 10+ years
- Enrollment has declined over 65% since FY2005; in response the district has closed over 150 schools, reduced its workforce by 10,000 positions, outsourced services and garnered various concessions to address mounting deficits
- While enrollment is beginning to show signs of stabilization due to a comprehensive recruitment and retention program, DPS continues to face operating losses in large part due to legacy operating debt obligations
- Without these debt obligations, DPS has a path to fiscal stability
- The initiatives currently underway and future initiatives will position DPS for success:
 - Complete reorganization of the central office which reduced approx. 100 positions and overhead and pushes resources towards schools
 - Establishment of a network structure that will enable the district to operate more efficiently
 - Increased accountability to ensure the district's overall best interest
- DPS needs legislative support in order to implement an orderly transition to fiscal stability and improved educational outcomes for Detroit's youth
- The time to act is now.
 - All that can be done under the powers of the Emergency Management has been done. The District is 95% complete in the implementation of its restructuring
 - The District will run out of cash in April. If the legislature does not act now, the alternative is far worse for the State of Michigan, all Michigan school districts and for Detroit

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Historical efforts undertaken

2

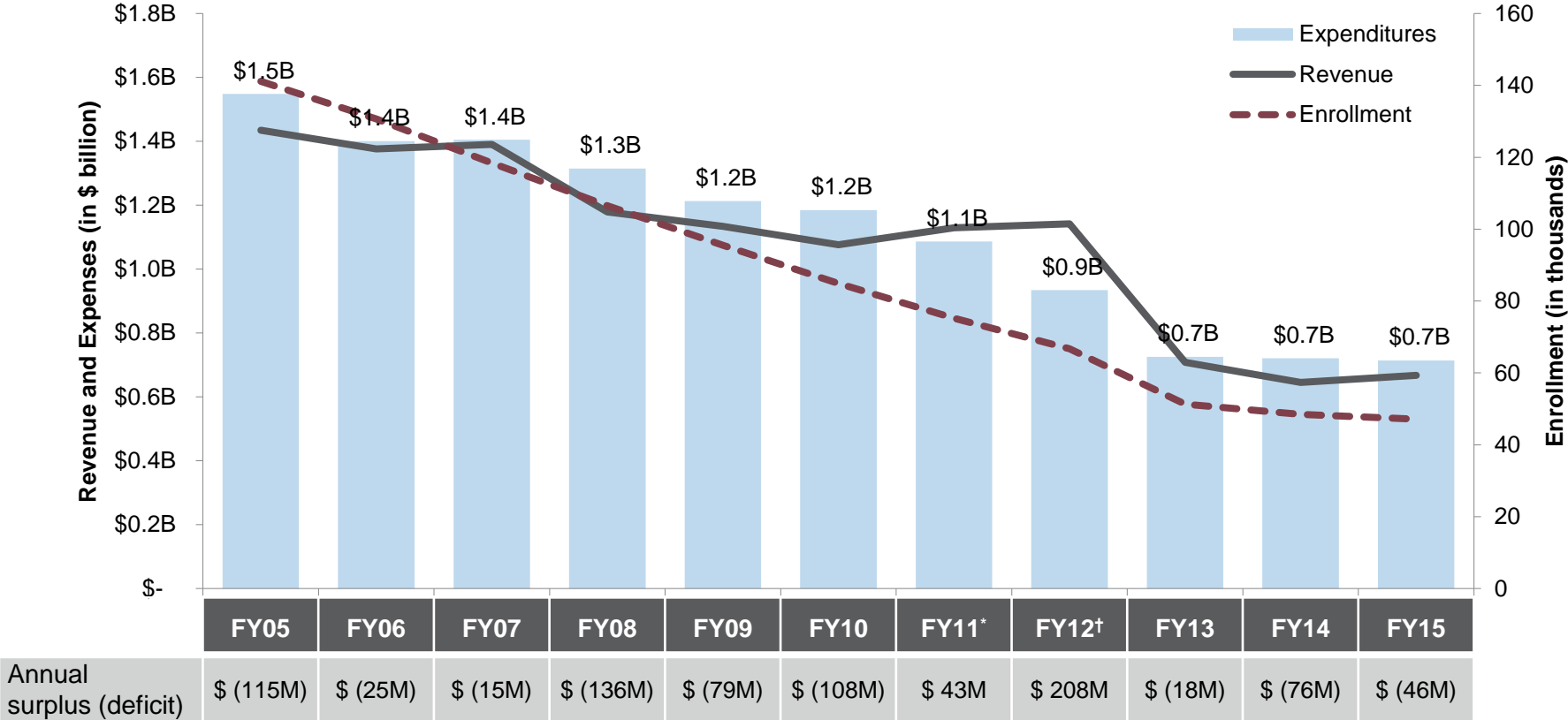
Current situation

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How to shape the future

DPS has cut over \$800M in expenses since 2005 but expenses continue to exceed revenue

Detroit Public Schools, Revenue and Expenditures
FY 2005 – FY 2015

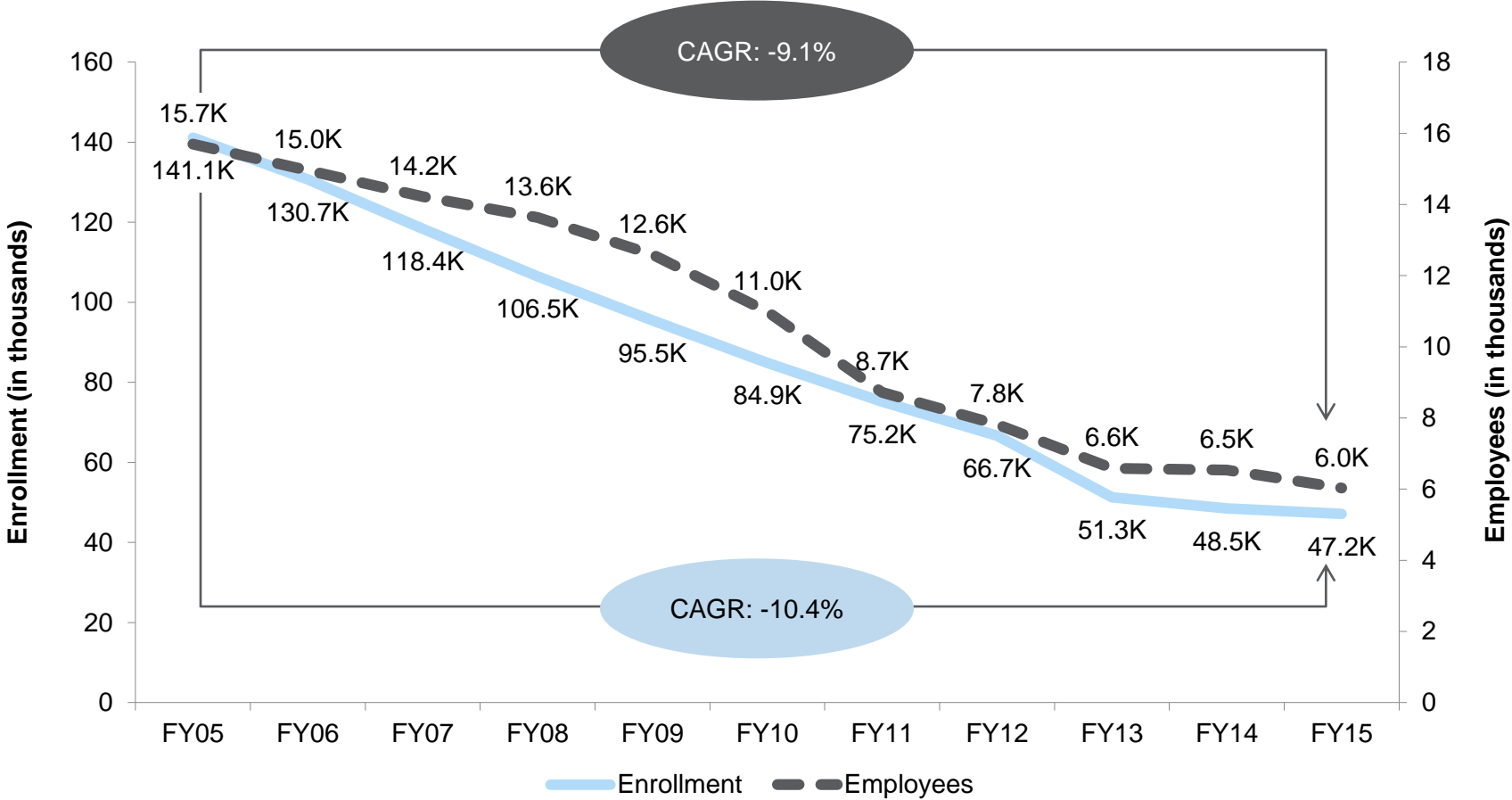


- Enrollment declined over 65% since FY05
- Over the same time DPS closed more than 150 schools and has continuously cut expenses but has been behind enrollment and revenue declines

* Includes one-time grant revenue awarded under the American Recovery and Reinvestment Act (ARRA)
 † Includes \$245M revenue from new bond issuance, Deficit would have been \$ (37M) without bond issuance
 Source: Detroit Public Schools Comprehensive Annual Financial Reports

DPS workforce has declined steadily since 2005, but has not kept pace with the loss of enrollment

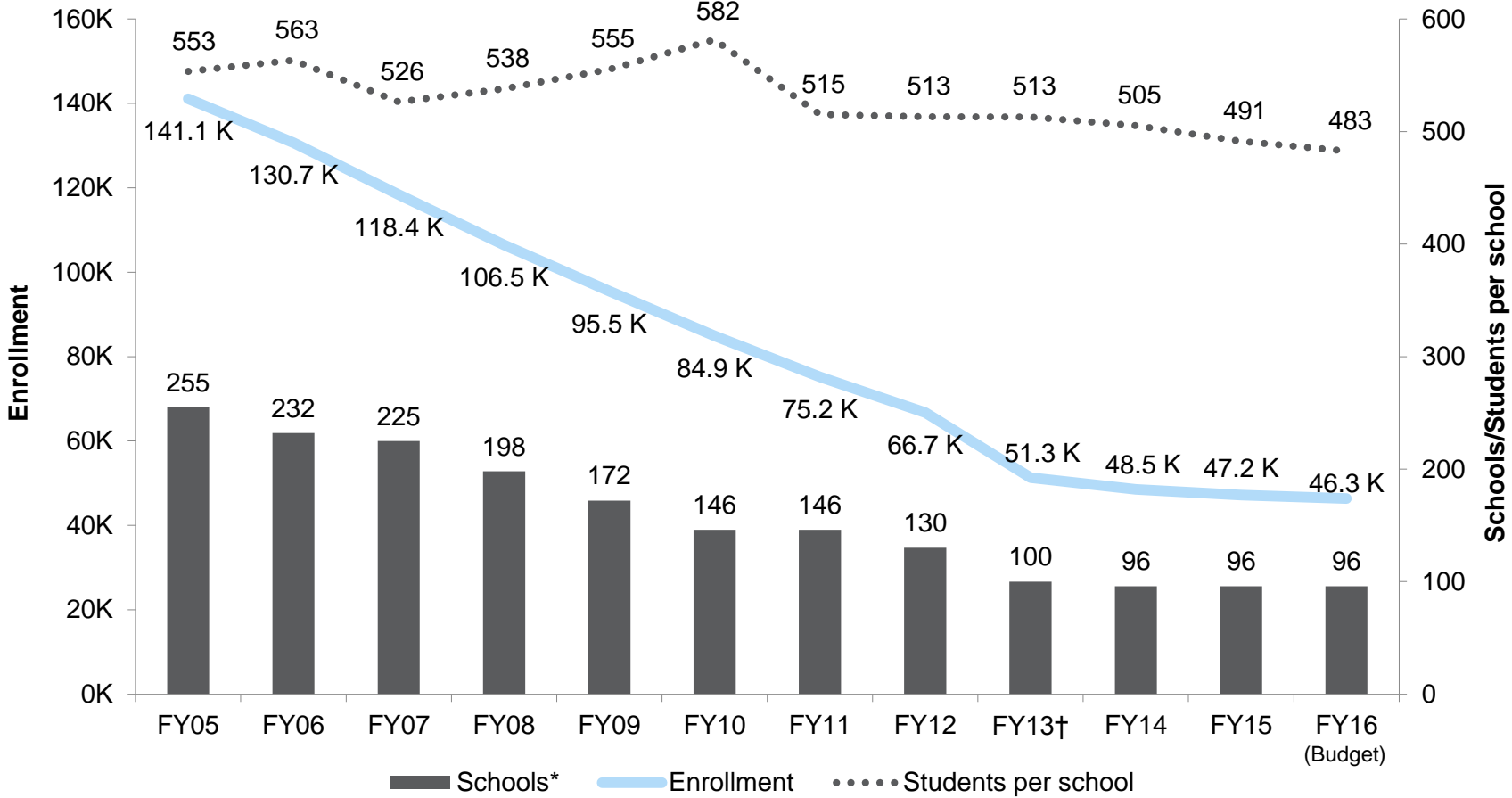
Detroit Public Schools, Enrollment and Employees
 FY 2005 – FY 2015



Note: CAGR stands for Compounded Annual Growth Rate
 Source: Detroit Public Schools Comprehensive Annual Financial Reports

DPS has closed approx. 160 schools since 2005 in response to enrollment losses. School planning will continue to be important as enrollment stabilizes

Detroit Public Schools, School closures and School size
FY 2005 – FY 2016 Budget



† Creation of EAA resulted in transfer of 15 schools.

*Includes elementary schools, middle schools, high schools, alternative education schools, special education schools, and career technical and vocational centers.

Source: Detroit Public Schools Comprehensive Annual Financial Reports

DPS has undertaken a number of cost cutting measures but more transformation is necessary to align the district with current enrollment levels

Actions Taken

- Wage concession of 10% and pay freezes dating back to FY 2000
- Sale of assets to generate revenue (>\$15M in FY14 and FY15 alone)
- Reduction of nearly 10,000 positions since 2005 (62% decrease)
- Reduced number of schools by 159 since 2005 (62% decrease)
- Multiple modifications to healthcare benefits to reduce costs
- Implementation of two Employee Severance Plans to reduce payroll costs
- Continual effort to cancel, renegotiate and re-bid vendor contracts to reduce operating costs
- Enrollment stabilization campaign

DPS is transforming the way it operates beginning in FY16 with a smaller central office that includes new functions and a shift of resources to schools

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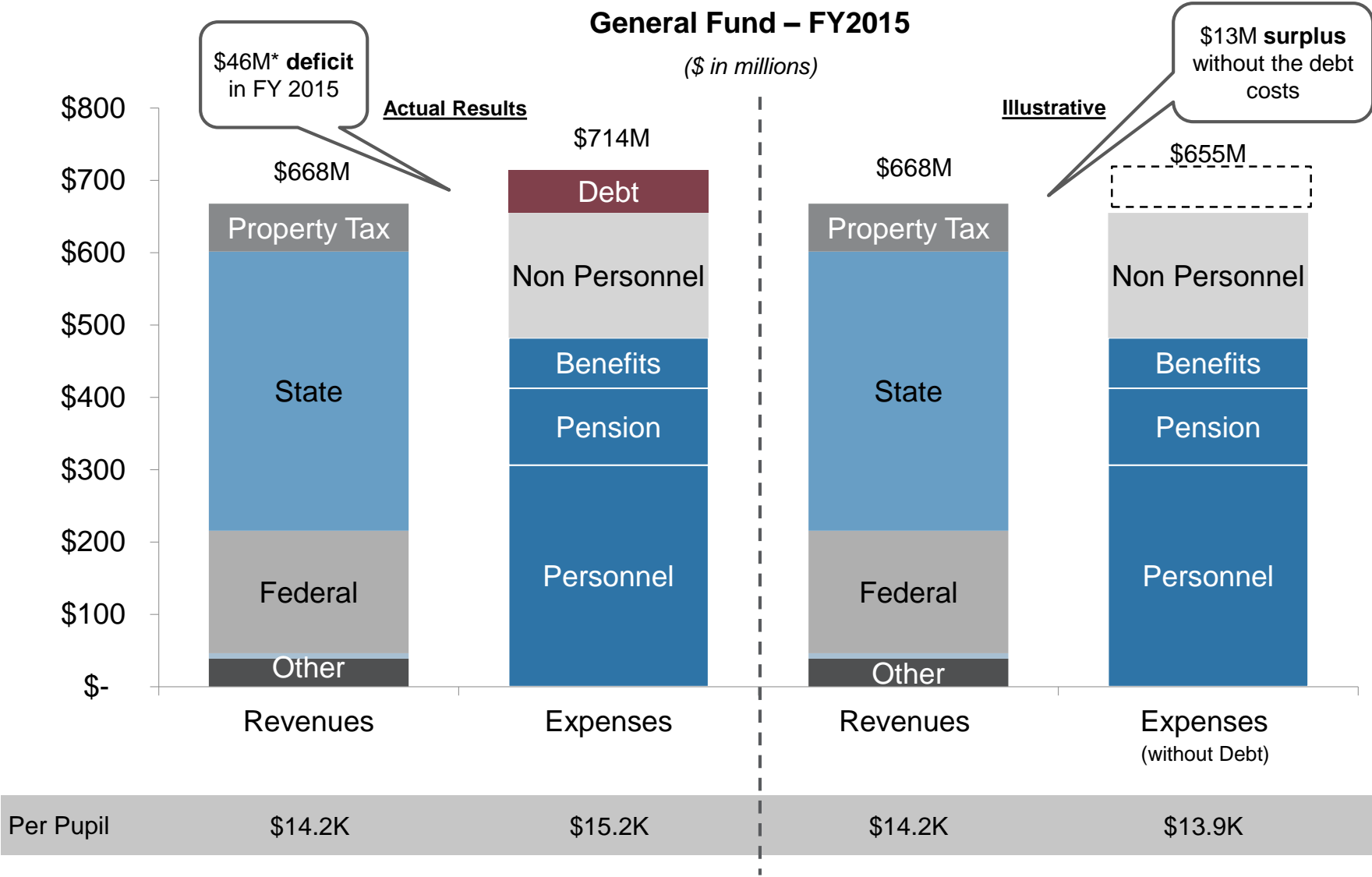
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Current situation

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How to shape the future

Without debt expenditures, DPS budget would have been balanced in FY2015



DPS 2014-15 Foundation Grant was \$7,296

What does DPS need?

Relief of approximately \$515M of legacy obligations and \$200M of start-up costs



- Remaining operating debt (2011/2012 bonds)
- Short-term borrowing
- Deferred pension payments
- Deferred vendor payments
- Other

- Deferred maintenance
- Operational support during transition
- Investment in key academic programs
- Operating cash requirements
- Transition costs
- Other

- OldCo will continue to operate in its current form through 6/30/2016 (“FY16”)
- Steady elimination of total OldCo obligations with dedicated funds from property tax receipts

Legacy obligations of ~\$515M are comprised of operating bonds, short-term borrowings, and deferrals

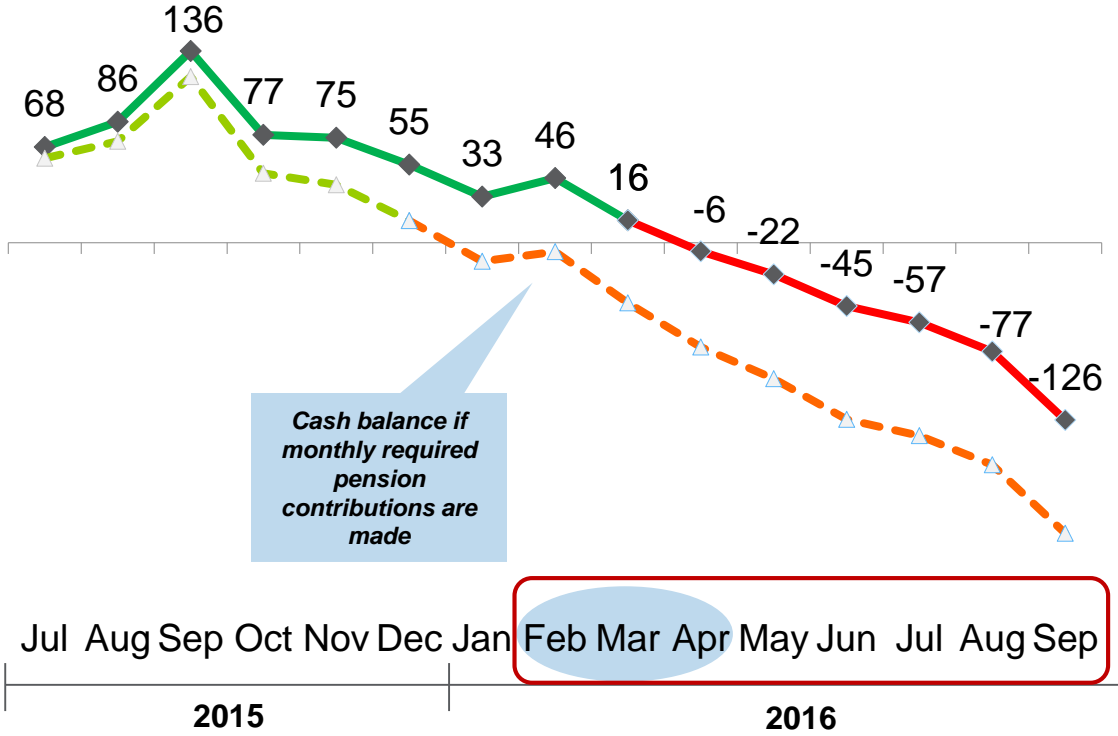
Outstanding operating liabilities as of 12/31/2015 after set aside payments (\$ in millions)

\$245M	2011/2012 Operating Bonds
66M	2015B SAN (State Aid Notes)
96M	2015E SAN (State Aid Notes)
117M	MPSERS
51M	Trade debt
575M	Subtotal
(66)M	Cash on hand (12/31/2015)
\$509M	Net debt (12/31/2015)
~\$515M	Net debt projected as of 6/30/2016

Why act now?

DPS faces near term cash shortfalls due to maturing debt and past due operating obligations

Ending Cash Balance
(\$ in millions)



- DPS has taken recent action to address the mounting cash flow troubles, including more cost reductions, State Aid Note (“SAN”) debt issuance (\$120M in Sep’15), and deferrals
- Even so, DPS is expected to face a cash shortfall of ~\$45M by June 2016
- We are exploring options to address the FY16 shortfall including the following:
 - Further deferrals
 - Personnel and benefits reductions (transformational savings)
 - Another refunding and/or SAN/TAN transaction
 - Distress funding from State (i.e. cash flows presented do not include distressed district funds of \$50M)

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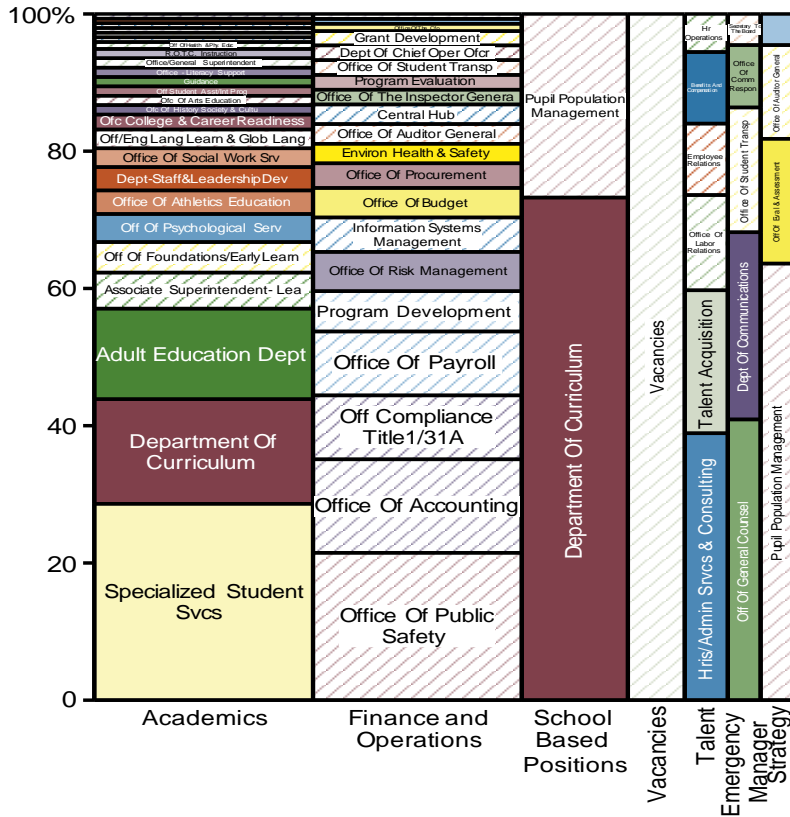
Current situation

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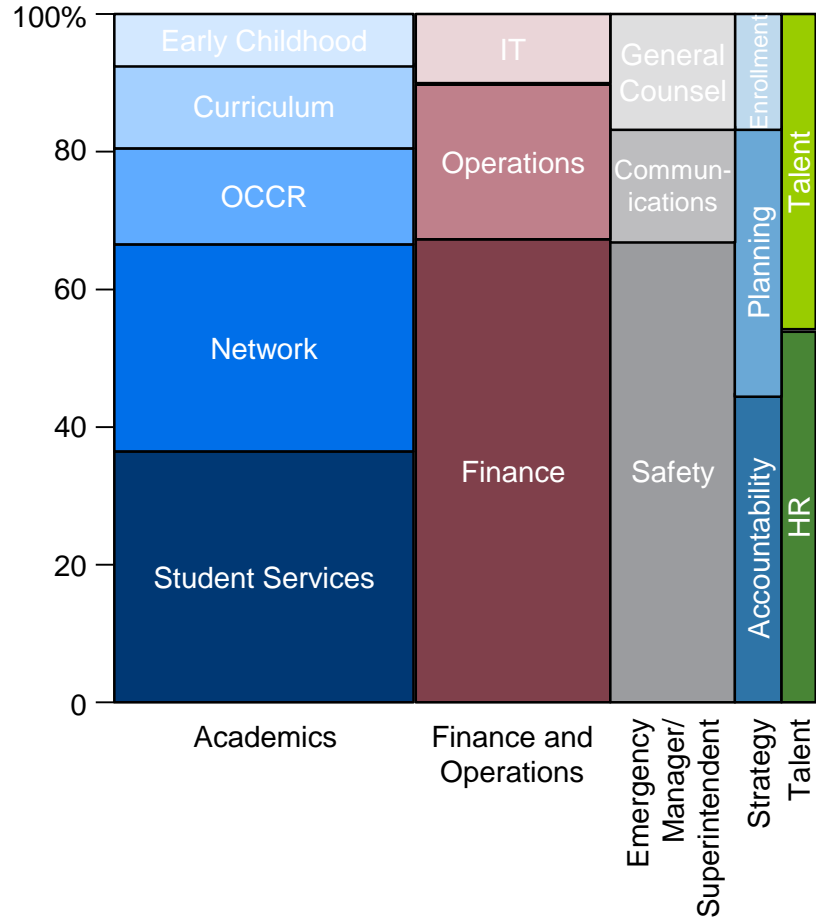
How to shape the future

The Central Office moved from 60 departments to 16 offices within 5 divisions

DPS Central Office Budgeted Offices and Departments FY15



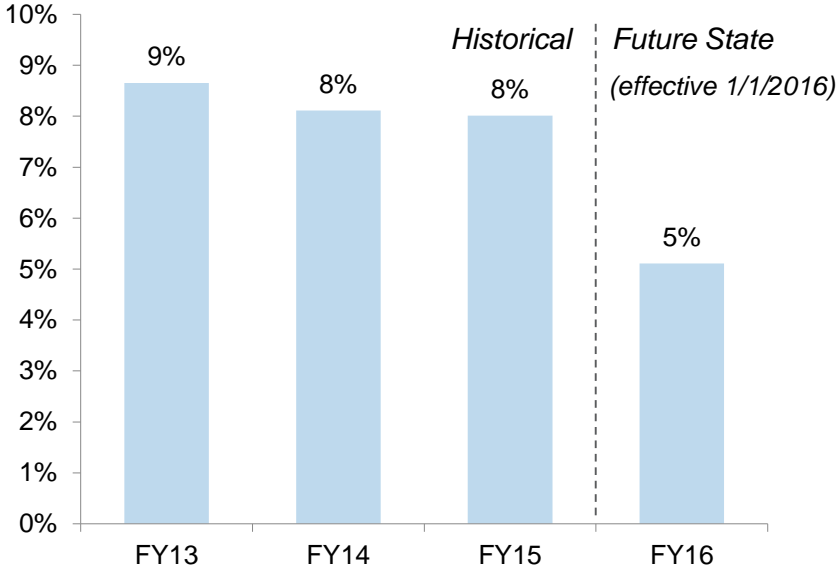
DPS Central Office Projected Offices and Departments FY16



Examples of how DPS is realigning the District's focus on the schools

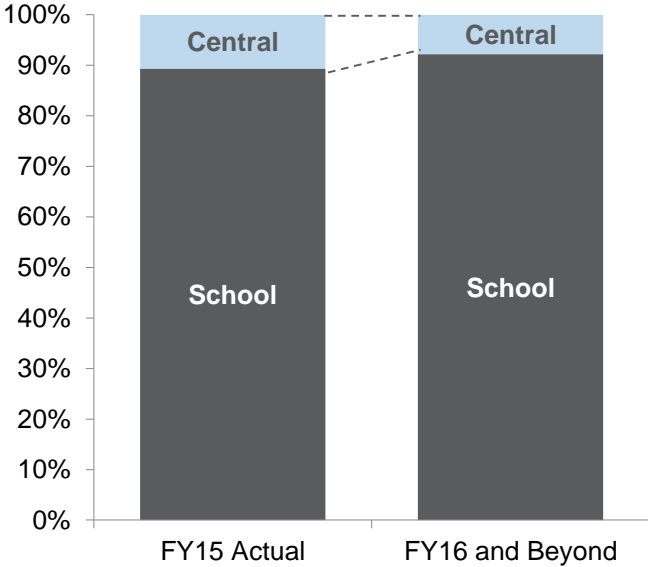
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**Percent of Central Office FTEs
FY13-FY16**



2

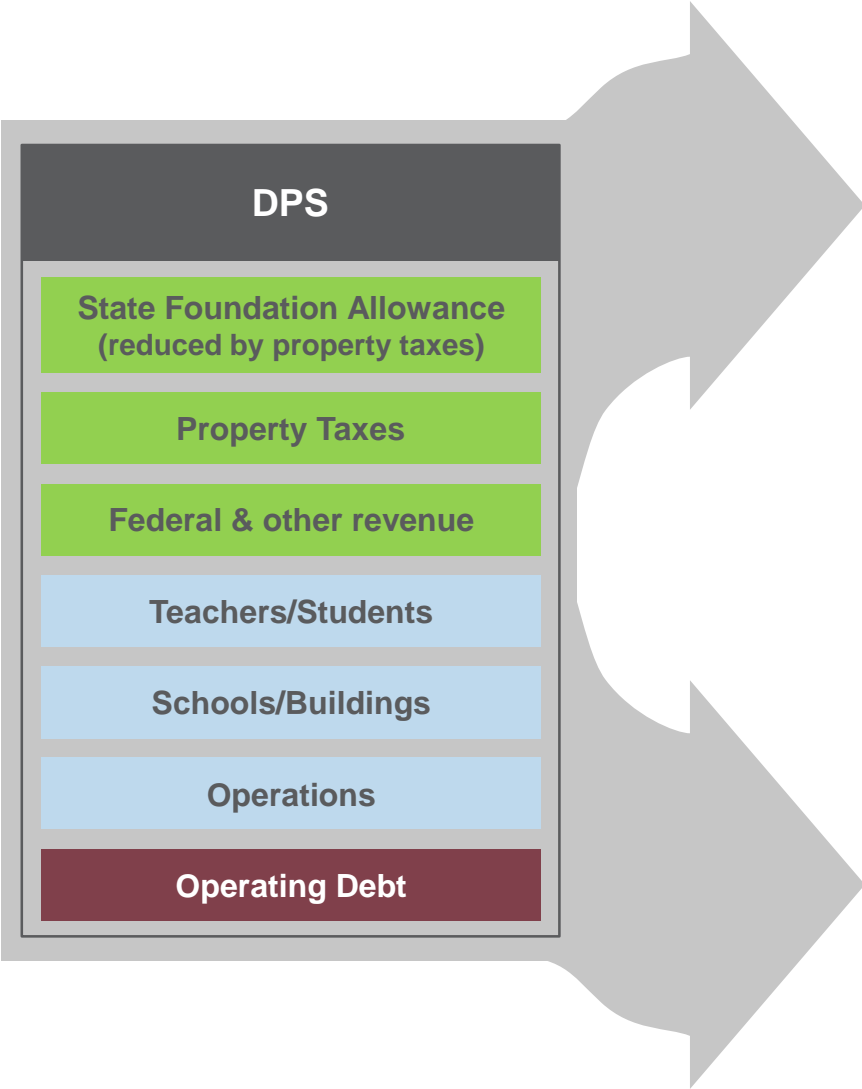
**Comparison of Personnel expenses
FY15-FY16**



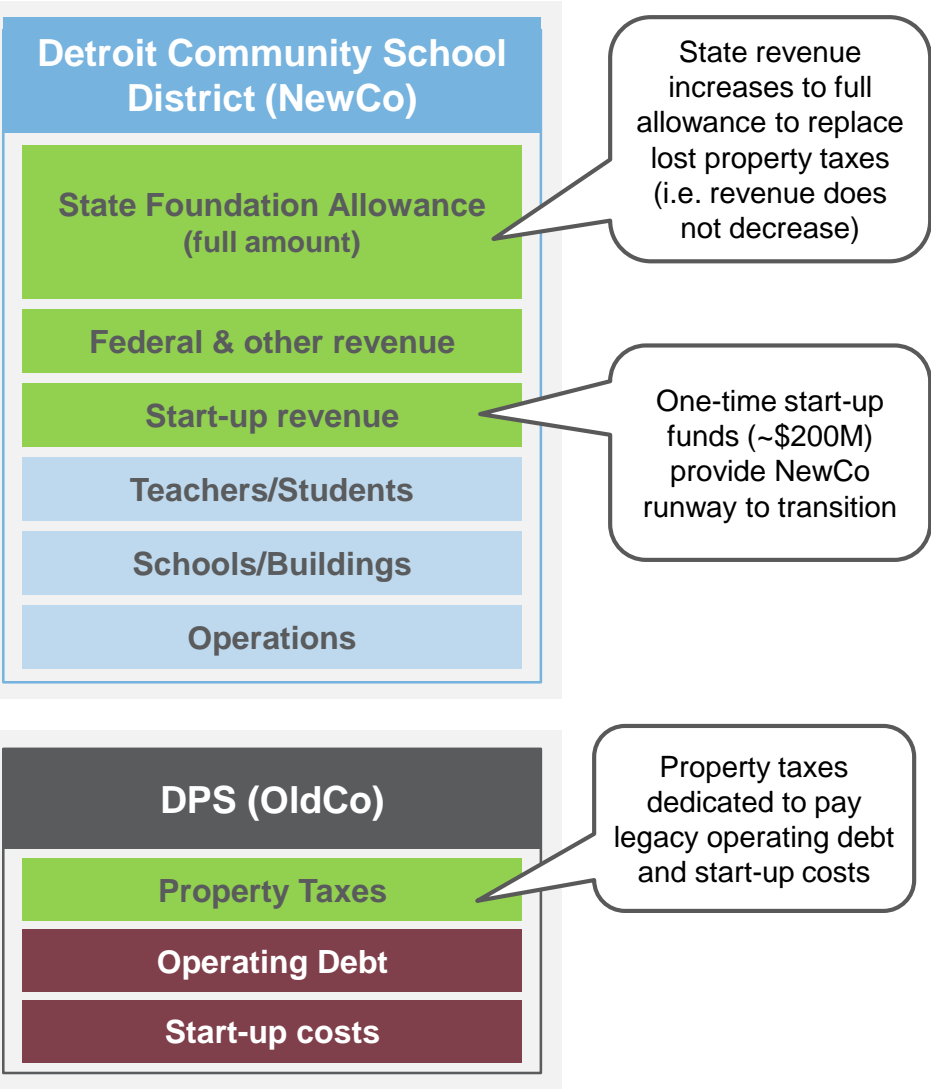
- Central office operations and services are significantly downsized as resources are shifted closer to students
- Schools have access to a much larger pool of funds to be used and allocated at the school-level
- Achieving this shift required support from MDE, as well as additional capacity at the school level

The proposed structure creates a “New Co” entity with the same amount of revenue and no debt

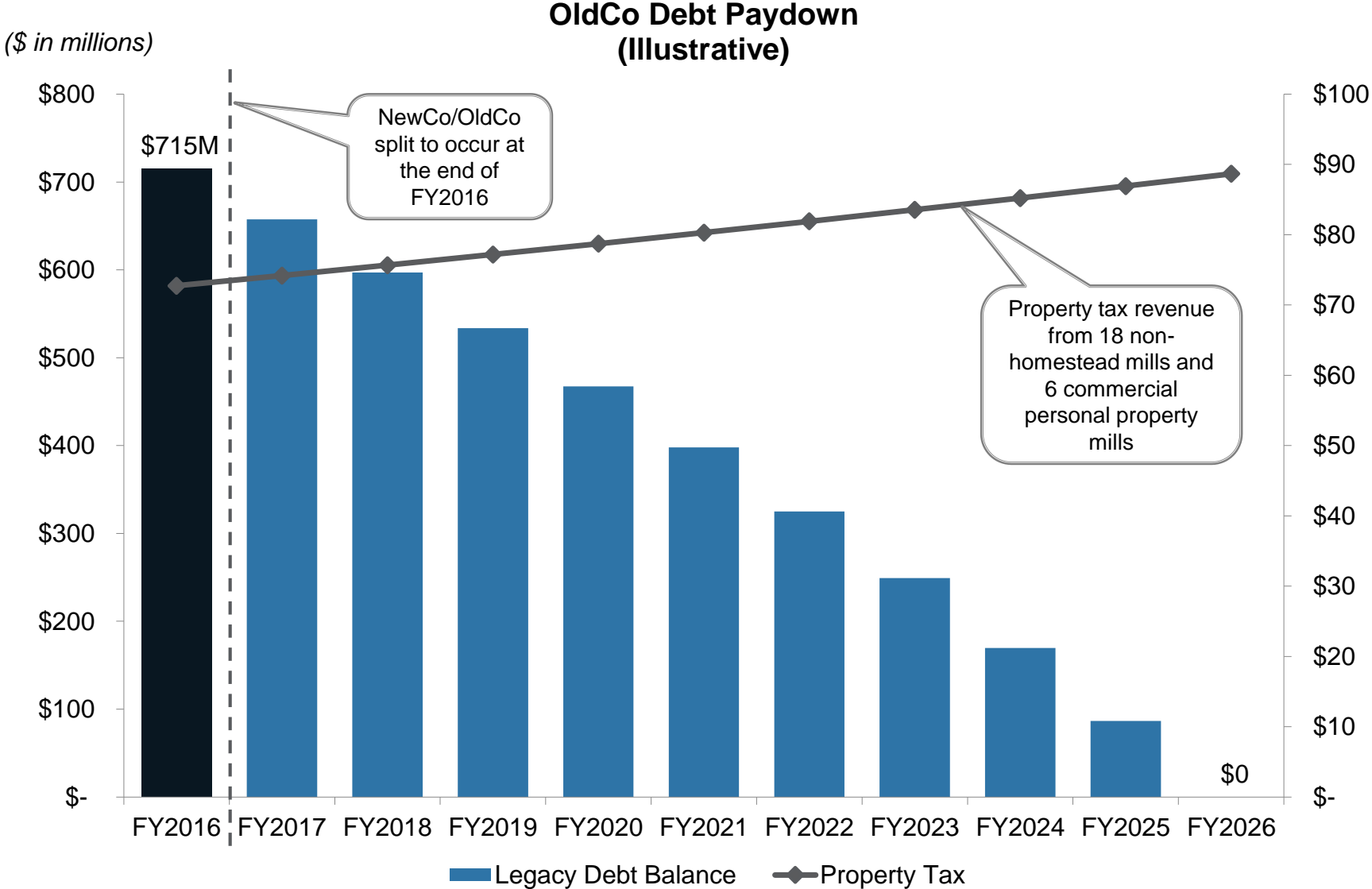
Current Structure



Future Structure



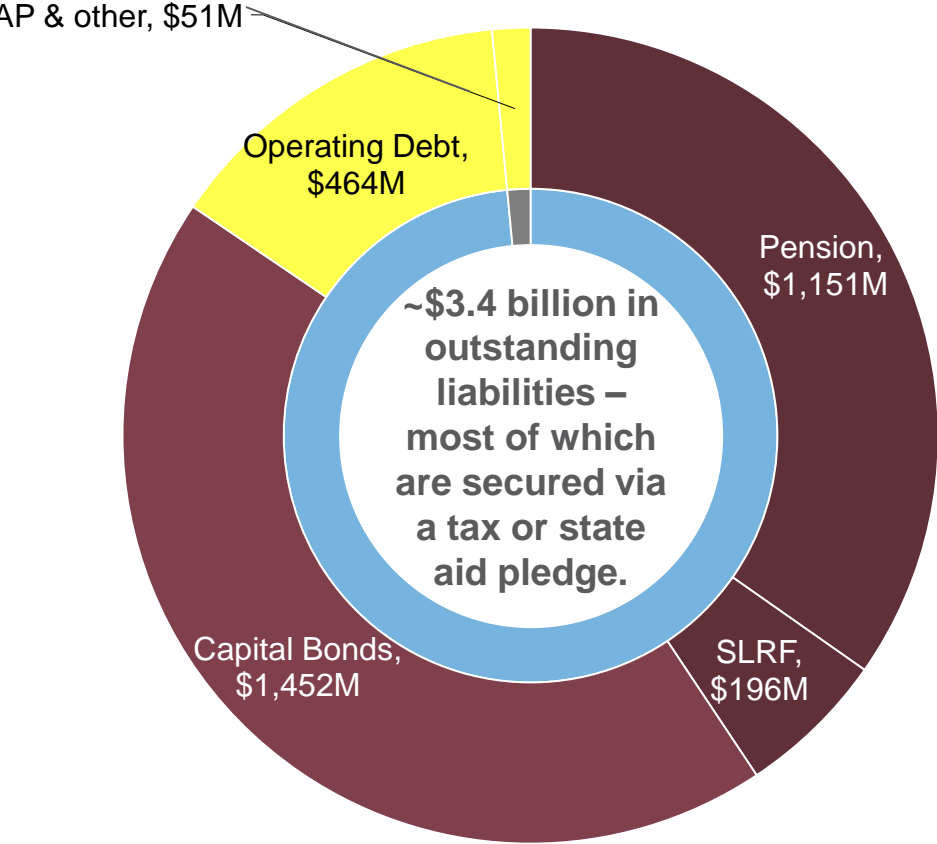
Property tax revenue that remains with OldCo would be used to paydown the \$715M of legacy obligations beginning in FY 2017



What are the implications of doing nothing?

Tax payers could become liable for a majority of DPS' costs and obligations

- The State is required to ensure education is provided to more than 46,000 pupils currently enrolled in DPS.
- If DPS is unable to support current operating and legacy expenditures, it may need to consider formal insolvency proceedings, potentially requiring taxpayers to finance the following obligations:



Risk to state*

- Direct
- Potential Direct
- Indirect

Security†

- State backed
- Not secured

Unlike the City of Detroit, DPS would not benefit from a bankruptcy as it would predominantly shift liabilities onto other municipalities

*Risk assessment relates to impact to State; "Direct" denotes liabilities that immediately fall onto the State or statewide municipalities, "Potential direct" denotes liabilities with uncertainty what bankruptcy ruling would be, "Indirect" denotes liabilities which are indirectly associated with the State and where default would negatively affect other important or critical local and state-wide market participants that in turn could default.
 †State backing includes: Unlimited tax general obligation pledge, State aid and the limited tax general obligation pledge of the District, Michigan Public School Employee Retirement System

Most of DPS’s obligations are tied to the State of MI; City Of Detroit debt that was secured by State Aid was not compromised in bankruptcy

	City of Detroit ¹			Detroit Public Schools		
	\$ Claim	Lien	Recovery	\$ Claim	Lien	Recovery
Debt - LTGO (Operating)	\$379 million	State Aid	100%	\$204 million (SAN)	State Aid	TBD
	\$164 million	Unsecured	34%	\$214 million (2011/2012 bonds)	State Aid	TBD
Debt - UTGO (Capital)	\$100 million	State Aid	100%	\$1.4 billion	Property Tax & SLRF ²	TBD
	\$388M million	Property Tax	74%			
Debt - COPs/swaps (Operating)	\$354 million	Unsecured	13%			
Pension	\$3.1 billion	City Sponsored (unsecured)	~60%	\$873 million	State Sponsored (MPERS)	TBD
OPEB	\$4.3 billion		10%	\$444 million		
Contracts	48 bargaining units; over 50 labor agreements; transit, police, fire, etc.			Less complicated labor structure		

¹ Data based on City of Detroit Plan of Adjustment; does not depict all of the City of Detroit’s debt and related settlements

² The School Loan Revolving Fund (“SLRF”) is State funded and authorized by the 1963 State of Michigan Constitution

Key Partnership – Wayne RESA

- Provide Operational Guidance/Support Through:
 - District Cabinet Meetings
 - District Structures (Academics, Facilities, Technology, etc.)
 - Talent Management
 - Technical Assistance to district leadership
 - .50 FTE Wayne RESA Staff Member
- Successful District Informational Meeting January 25, 2015 at Cass Tech High School

Key Takeaways

- Detroit Public Schools (DPS) has undergone tremendous change over the past 10+ years
- DPS has implemented a variety of best practice and cost saving measures and will continue to do so; removal of the debt will allow for a districtwide shift toward improved student achievement
- DPS is positioned to thrive in a debt free environment as evidenced by the 2014-15 audit which shows a \$13M surplus if the debt is removed
- The time to act is now; Detroit Public Schools is rapidly running out of funds and the alternative is far worse for the State of Michigan (all Michigan school districts) and for Detroit