School District of the City of Detroit

School Building and Site Improvement Refunding Bonds

(Unlimited Tax General Obligation), Series 2012A

(Michigan School Bond Qualification and Loan Program Qualified)

I'm in.

Investor Presentation

March 6, 2012

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Key Finance Team Members

Detroit Public Schools Series 2012A Financing Team
Roy Roberts *Emergency Manager* **William Aldridge** *Chief Financial Officer* **Delores Brown** *Deputy Chief Financial Officer* **Carol Rodriguez** *Deputy General Counsel*

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Susan Hoffman, Esq. *Of Counsel*

Financial Advisor Public Financial Management, Inc.
Kari Blanchett *Senior Managing Consultant* **James Haddon** *Managing Director*

Senior Manager Siebert Brandford Shank & Co., L.L.C.
Suzanne Shank *President & CEO* **David Thomson** *Managing Director*

Executive Summary

Detroit Public Schools ("the District" or "DPS")

- Largest school district in Michigan, serving approximately 66,885* students in 124 schools
- Roy Roberts was appointed as Emergency Manager ("EM") in May 2011 by Governor Rick Snyder, pursuant to the Local Government and School District Fiscal Accountability Act ("Act 4")
  - Under Act 4, the EM is empowered to make all financial, operating, academic, and educational decisions for the District
- Among the EM's initiatives are improving the financial stability and soundness of the District, increasing enrollment through the construction of new, modern schools and the renovation of existing schools, and improving the quality of education

Bonds Structure

- $251,900,000** School Building and Site Improvement Refunding Bonds, Series 2012A
- The Bonds pledge the full faith and credit of the District for the payment of the principal and interest thereon, and will be payable from ad valorem taxes which may be levied on all taxable property in the District, without limitation as to rate or amount
- The Bonds will be fully qualified in the School Bond Qualification and Loan Program ("SBQLP") as of the date of delivery; Under the terms of constitutional and statutory provisions, if for any reason the District will be or is unable to pay the principal of and interest on the Bonds when due, the District will borrow and the State will lend to it from the School Loan Revolving Fund established by the State, an amount sufficient to enable the District to make the payment
  - Fully qualified for participation in the SBQLP pursuant to the State Constitution and statutory provisions
  - Commits the State to make the payments if, for ANY reason, DPS does not do so
  - Due to participation in the SBQLP, the Bonds will share the State's ratings of Aa2/AA-

** Student total reflects blended student count for funding purposes for the end of the 2011-2012 school year*

*** Preliminary; subject to change*

Detroit Public Schools - Overview

- The District is the largest school district in the State of Michigan

Student Enrollment*	
Fiscal Year Ending 6/30/2012	66,885
Summary of Schools	
School Type	**Schools**
Elementary Schools	29
K-8 Schools	53
Middle Schools	3
High Schools	23
Alternative Schools	6
Special Education Schools	6
Vocational/Career Technical Centers	4
Total Schools	124

* *Student total reflects blended student count for funding purposes for the end of the 2011-2012 school year*

Recent History and Accomplishments

IMPROVING FINANCIAL SUSTAINABILITY

- Under the leadership of EM Roy Roberts, the District accomplished the following:
  - Ended fiscal year 2010-2011 with its first audited operating surplus since fiscal year 2001-2002 and reduced its negative fund balance by over $43 million
  - Reduced accumulated General Purpose Fund deficit of $284 million at June 30, 2011 to $84 million during fiscal year 2011-2012
  - Received notice from the Michigan Department of Education that the District is in compliance with state and federal requirements for Special Education for the first time since 2007, reinstating $4.8 million in federal funding

STRENGTHENING INTERNAL CONTROLS

- The District has implemented or is implementing numerous improvements to financial reporting and controls:
  - Long-term financial planning
  - Periodic financial statement reporting
  - Updating and documenting policies and procedures
  - Staff training and development
  - Segregation of duties
  - Establishing clear lines of authority
  - Establishing inspector general and auditor general functions

Capital Improvement Plan

- The District has developed a long-term Capital Improvement Plan (“CIP”) in support of its academic reforms and redesign of schools
- CIP includes construction of seven new schools and major renovations and/or additions to eleven others, a new public safety command center, District-wide security upgrades and improvements to schools affected by closures – financed in part by bonds issued pursuant to the 2009 School Bond Approval
  - Public safety command center opened in January 2011
  - Three of the new schools were completed in September 2011; two more scheduled for completion April 2012
  - Final two new schools scheduled to be opened in September 2012
- Implementation of the CIP will provide the following benefits for the District:
  - New schools will be LEED Silver certified, resulting in an expected reduction of operating expenses by nearly $3 million annually
  - Operating space will be reduced by nearly 2 million square feet, with a potential for further school closures depending on the success of enrollment retention initiatives
  - The District will accelerate the shift to a Pre-K–8 model and further reduce the number of traditional K-5 elementary and 6-8 middle schools.
  - The design for replacement and remodeled high schools will emphasize smaller, more manageable and academically rigorous schools that have shown signs of improving attendance, graduation rates and college readiness.
  - The District plans security improvements throughout the District, as well as upgrades in information technology and mechanical and infrastructure systems in certain schools

Operational Initiatives

- For the third consecutive year, the District has closed a significant number of schools to align operating space with enrollment, while considering neighborhood and community concerns
- In the summer of 2011, the District closed nine schools and expects to reduce operating costs by approximately $6.4 million
- The District converted five of its schools to District-run charter schools, which shifted all costs and revenues to the charter schools, except a 3% authorizer fee, which the District retains
- Three new schools were opened for fiscal 2012, replacing four older and larger facilities
- On February 9, 2012, the District announced plans to close nine school buildings during the summer of 2012, along with the conversion of four schools to charter operation. The closures are anticipated to reduce annual operating costs by $7,561,249

Current Deficit Elimination Plan

- The current Deficit Elimination Plan ("DEP VII") covers the period of fiscal year 2011-2012 to fiscal year 2015-2016, with a small surplus projected for the final fiscal year of the plan
- DEP VII is available at http://detroitk12.org/data/finance/docs/2011.07.29_Deficit_Elimination_Plan_VII.pdf
- DEP VII was approved by the State Superintendent on September 12, 2012 under the following conditions:
  - The District must submit monthly documentation/evidence as to the status of strategies identified by the District related to, but not limited to, the following shared/collaborative service initiatives: Information Technology, Human Resources/Payroll Process, Finance Reporting/Accounting Systems, Risk Management/Insurance, Procurement, Student Transportation, Special Education, and Adult Education
  - The District must submit regular updates in the monthly documentation on the status of the Education Achievement Authority ("EAA") and any anticipated financial implications to the District related to the EAA
  - The District must submit regular updates regarding the status of pending litigation, including the litigation described in the POS under "Litigation–Act 4 Litigation"
  - If the agreements reached on the strategies in DEP VII do not result in the projected savings, the District must immediately reduce expenditures in other areas in order to meet the level of deficit reduction included in the plan
  - ***The EM is not allowed to recommend or declare the District in bankruptcy during the remaining tenure of his contract***
  - DEP VII and the requirements of the DEP VII approval letter must be implemented immediately. If at any time during the course of DEP VII the governance of the District changes to another emergency manager or to an elected school board, DEP VII, as approved (which includes the immediately preceding prohibition on recommending or declaring the District in bankruptcy), must continue to be implemented

Legal Authority for the Bonds - Michigan State School Bond Loan Program

- School districts in Michigan have primarily funded capital projects by issuing voted “qualified” general obligation (“G.O.”) bonds
- The Bonds are full faith and credit unlimited tax general obligations of the District issued pursuant to Michigan’s Revised School Code and Revised Municipal Finance Act
- Fully qualified for participation in the State of Michigan School Bond Qualification and Loan Program pursuant to the State Constitution and statutory provisions. Key provisions include:
  - State obligation to pay debt service on the Bonds if school district does not pay for any reason
  - School district may borrow all or any part of excess over 13 mills from the State if the annual debt retirement tax levy would otherwise exceed 13 mills
  - Borrowing and repayment of loans are planned as part of approval for a bond issue
  - Comprehensive and extensive review by the State of all financial and CIP plans prior to granting qualification in the program
- In order to receive loans, borrowers must levy a dedicated property tax ranging from 7 to 13 mills which can only be used for amortizing qualified bond debt service and repaying any state loans

Bankruptcy Impact on Bond Holders

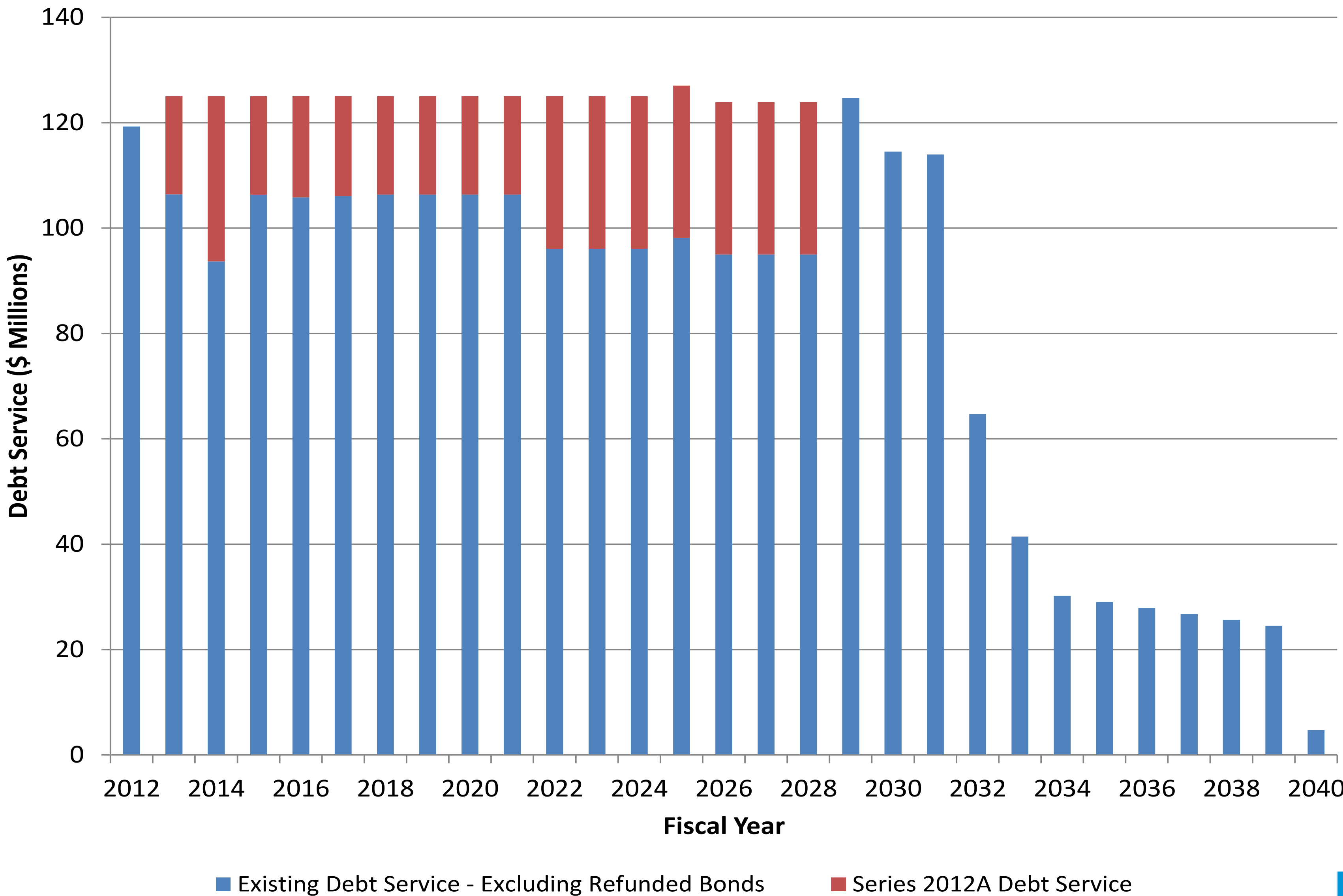
- Pursuant to Act 4, an EM can recommend to the Governor and the State Treasurer that a school district become a debtor under the United States Bankruptcy Code
- Without the EM's recommendation and authorization from the Governor, a school district cannot file for bankruptcy
- In approving the District's current deficit elimination plan, the Michigan Department of Education specifically prohibited the EM from recommending or declaring the District in bankruptcy during the remaining tenure of his contract. This prohibition against recommending or declaring a bankruptcy filing for the District also applies to any successor EM or elected school board during the term of current deficit elimination plan
- If the District were to file bankruptcy, the District has been advised by Bond Counsel that there is a risk that the automatic stay provisions of the Bankruptcy Code or the exercise by the Bankruptcy Court of its equitable powers could delay or prevent the District from using the proceeds of the tax levied specifically to pay principal of and interest on the Bonds for such purpose, unless the Bankruptcy Court were to enter an order permitting such use.
- The District has also been advised by Bond Counsel that the commitment of the State Treasurer to pay principal of and interest on the Bonds pursuant to the qualification of the Bonds under the School Bond Qualification and Loan Program as they become due should not be affected by the bankruptcy proceeding of the School District, and that the State Treasurer should be able to continue to make such payments notwithstanding the existence of such bankruptcy case
- Notwithstanding the foregoing, the exercise by the Bankruptcy Court of its equitable powers could result in delay in the making of such payments by the State Treasurer or in the receipt by the Bondholders of such payments

Amended 2011-2012 Budget - Highlights

- The 2011-2012 Amended Budget provides for $1,032,002,760 in revenues, other financing sources of $19,815,327 and $1,051,818,087 in expenses, resulting in a balanced budget
- The amendment and restatement of the Series 2011A Notes in October 2011 reduced the accumulated General Purpose Fund deficit of $284 million at June 30, 2011 to $84 million during fiscal year 2011-2012
- Initially, the accumulated deficit at June 30, 2011 was projected at $327.3 million
- However, enhanced expenditure controls and implementation of saving initiatives resulted in an operating surplus of $43.4 million and a fund deficit of $284 million at the end of the 2010-2011 fiscal year

Detroit Public Schools Debt Overview

Existing and Projected Debt Service



Transaction Overview –
Series 2012A Refunding Bonds

Financing Information*	
School Building and Site Improvement Refunding Bonds, Series 2012A	
Par Amount:	▪ $251,900,000
Dated/Delivery Date:	▪ March 27, 2012
Use of Proceeds	▪ Proceeds of the Series 2012A Bonds will be will be deposited in an irrevocable escrow fund and used to pay the principal of, premium, if any, and interest on certain School District Prior Bonds including the Series 1998B, 2001A, 2002A and 2003B Bonds
Ratings	▪ Aa2/AA- (Due to Participation in the SLRF)
Maturity:	▪ Due annually on May 1 with a final maturity in 2028
Interest:	▪ Interest on the Bonds is payable on November 1, 2012, and thereafter on each May 1 and November 1 to maturity
Tax Status:	▪ Tax-Exempt (Federal and State of Michigan)
Security:	▪ The Bonds pledge the full faith and credit of the District for the payment of the principal and interest thereon, and will be payable from ad valorem taxes which may be levied on all taxable property in the District, without limitation as to rate or amount . ▪ The Bonds will be fully qualified in the School Bond Qualification and Loan Program as of the date of delivery. Under the terms of constitutional and statutory provisions, if for any reason the District is unable to pay the principal of and interest on the Bonds when due, the State will pay the Bonds from the School Loan Revolving Fund established by the State. ▪ The School Bond Qualification and Loan Program also enables the District to borrow from the School Loan Revolving Fund all or any excess over 13 mills if the annual debt retirement tax levy would otherwise exceed 13 mills. Such borrowing is planned as part of the qualification process.

*Schedule and pricing information are preliminary and subject to change; for further information please consult the Preliminary Official Statement.

2010 Financing Structure & Schedule*

Series 2012A Financing Structure*	
Series 2012A **Par - $251,900,000**	One or More Term Bonds (2028 Final Maturity) Mandatory Sinking Fund Payments to Investors Beginning in 2026

Series 2012A Schedule*	
Price Guidance	Tuesday, March 6, 2012
Launch	Wednesday, March 7, 2012
Closing	Tuesday, March 27, 2012

*Preliminary and subject to change

Summary

- The Bonds are a voted unlimited tax general obligation of Detroit Public Schools; requires DPS to levy taxes in any amount required to meet debt service payments
- Funds from debt levy cannot be co-mingled with General Fund dollars, and can not be used for general operating purposes - only for bond payments, and related costs
- Bonds have the State of Michigan School Bond Qualification and Loan Program pledge, which:
  - Commits the State to loan DPS the amount needed over 13 mills
  - Commits the State to make the payments if for ANY reason DPS does not do so
  - Carries ratings of Aa2/AA- from Moody's and S&P, respectively

Additional Information

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POS Link

http://www.munios.com/id.aspx?g=8YSC8H1IH213E