May 2017 | Memorandum 1145

A PROGRESS REPORT ON DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT FINANCES

In a Nutshell

- The Detroit Public Schools (DPS) district had amassed over $3.5 billion in operating debts and capital liabilities by the end of FY2015.
  - A package of bills enacted in June 2016 to address a host of chronic problems facing DPS included a state-financed debt retirement plan.
  - To provide the district with the funds to retire its debts, the state is allowing the proceeds from the 18-mill local school operating tax to be redirected toward debt repayment.
  - A “new” district, Detroit Public Schools Community District, took the place of DPS last July.
- Since adoption of the new district’s original FY2017 budget, significant changes affecting the budget include:
  - the addition of the enhancement millage funds levied by the intermediate school district and shared among all school districts within it;
  - a transfer of FY2016 year-end funds from DPS;
  - almost $10 million from the sale of district assets; and
  - recognition of lower projected spending to reflect staffing vacancies.
- The Detroit Public Schools Community District (DPSCD) currently projects to end the fiscal year with a $64 million General Fund surplus, up from $17 million in the original budget. However, the long-term budget improvement is much less when one-time resources are factored out. In total, one-time resources account for about two-thirds of the total projected year-end surplus.
- The district continues to face some uncertainty related to its long-term financial future that could derail the “fresh” financial start that state policymakers crafted for the school district.
  - The district must make academic improvements.
  - The loss of students has moderated in recent years and the district is likely to experience a 10 percent bump when the Education Achievement Authority schools are folded back into DPSCD.
  - A key challenge facing the district is to balance the need to increase efficient use of its facilities, while ensuring that Detroit school children have access to a nearby school.

Detroit’s “new” public school district, the Detroit Public Schools Community District (DPSCD), will end its first year in operation on June 30, 2017. The new district was created and took over K-12 education responsibilities from Detroit Public Schools (DPS) last July following the adoption of a state-financed financial rescue package. The new district began the fiscal year on July 1, 2016, debt-free and with a balanced budget. Since that time, its financial picture has improved and the district currently projects to end the fiscal year with a $64 million General Fund surplus.

While DPSCD’s near-term financial status remains stable and has shown signs of moderate improvement, the district’s long-term fiscal health remains clouded by a number of key structural factors. The district’s operating budget has benefited from the recently enacted regional enhancement millage, staffing vacancies, and a number of one-time revenue items. At the same time, the district continues to face some uncertainty related to its long-term financial future stemming from the ever-changing Detroit education market as well as the struggle to improve student academic achievement in many of its schools. These headwinds could derail the “fresh” financial start that state policymakers crafted for Michigan’s largest public school district.
Settling Detroit Public Schools Debts

Despite years of state oversight and being under the control of a state-appointed emergency manager from 2009 to 2015, Detroit Public Schools amassed over $3.5 billion in operating debts and capital liabilities through June 30, 2015. Nearly $1.9 billion of the total represented operating liabilities and legacy debts arising from years of budget over-spending and mismanagement; the district had a $342 million accumulated budget deficit entering the 2015-16 school year. The annual principal and interest payments to finance this deficit was strangling the district, costing it nearly $1,100 per student. As the 2015-16 school year progressed, it was clear that emergency management would not be able to free the district from its legacy debts or adequately control its mounting fiscal problems. State intervention was inevitable, but a different approach was required.

After months of deliberations on the topics of governance, academic accountability, and finances, the Michigan Legislature enacted a package of bills to address a host of chronic problems facing DPS. A key component of the package included a state-financed debt retirement plan. The multi-year repayment plan will pay off approximately $467 million in operating debts, consisting mostly of unpaid vendor bills, including past due amounts owed to the state teacher retirement system, and the outstanding balances on short-term notes used to finance previous years’ operating deficits. Additionally, the financial rescue package included a $150 million state loan for transitional operating costs. In total, the package provided $617 million in state funds over a number of years to retire debt and kick start the new Detroit district.

To provide the DPS with the funds it needed immediately to begin to pay vendors, the state Local Emergency Financial Assistance Loan Board was authorized to loan the district $150 million for transitional operating costs. Of this total, $25 million was earmarked for transfer to the Detroit Public Schools Community District for investment in academic programs, safety enhancements, and facilities maintenance. The loan was made in July 2016 and will be repaid in the same manner as the district’s other debts.

To provide DPS with the funds to retire its debts, the state is allowing the proceeds from the 18-mill local school operating tax to be redirected toward debt repayment. This is the same mechanism the state has used to allow other, smaller districts to settle their legacy debts (Muskegon Heights, Highland Park, Inkster, and Buena Vista). In the case of these other school districts, the amounts redirected from the local school operating funds were relatively small and could be absorbed statewide with little effect on other school districts’ finances. Because the redirection of Detroit’s 18-mill tax (estimated at $66 million per year) toward debt forgiveness would either result in a reduction in the per-pupil funding that Detroit students receive or require the state School Aid Fund to make up the difference, the state earmarked $72 million per year (up to a total of $617 million) in tobacco settlement revenue to finance the per-pupil funding Detroit students would have received from the local tax. This will make whole the per-student funds and shield the School Aid Fund from the responsibility for financing DPS debts.

In exchange for settling the debts, DPS was relieved of its responsibility for educating students. The district remains in existence for the sole purpose of debt liquidation, both operating and capital debt (i.e., debt backed by dedicated local taxes). This is the same basic outcome from the previous four instances where the state stepped in to liquidate...
districts’ legacy debts. Both the Muskegon Heights and Highland Park traditional school districts were eliminated and converted to charter schools, while the Inkster and Buena Vista districts were dissolved as educating districts and their students reassigned to neighbor districts. In each case, the legacy or “old” districts still exist solely to tax and repay debt.

In the case of Detroit, the state created a “new” district, Detroit Public Schools Community District (DPSCD), to take the place of DPS. The new district took control of existing DPS schools on July 1, 2016, with a balanced budget and free of debt.

Status of FY2017 Budget

The new district’s original 2016-17 fiscal year (FY2017) budget was approved by the Detroit Financial Review Commission in June 2016. The adopted FY2017 budget balanced expenditures to available resources and showed that the district expected to end the fiscal year with a surplus of $17.3 million (see Table 1).

Since adoption of the original budget, a number of developments have affected both the projected revenue and spending, leading to four budget amendments. The latest budget amendment, approved in April by the Financial Review Commission, projects a year-end surplus of $64.4 million. It is likely that the budget will be adjusted one last time before the June 30 year-end, but will not change dramatically from the current version. The amended budget is compared to the adopted budget in Table 1.

Comparing the original and amended budgets shows improvement in the district’s bottom line; year-end surplus increases from $17.3 million to $64.4 million. This is caused almost exclusively by increases in revenue and other financing sources. Compared to the original budget, the amended budget increases total revenue $27.3 million and increases other financial sources $19.1 million, a total of $46.4 million. Some of these revenue changes are recurring, meaning that they will be available to the district every year. Changes to the amount of other financing sources represent one-time adjustments that will not be available in future years. These are primarily related to the transition from DPS to DPSCD.

While projected expenditures among the various spending categories changed across the four budget amendments, on net, total expenditures remained constant in the adopted and amended budgets. District expenditures are expected to total just over $650 million in FY2017.

The single largest contributor to the revenue change is the addition of the enhancement millage funds levied by the intermediate school district and shared among all school districts within it. In November 2016, voters in the Wayne Regional Education Services Agency (RESA) approved a six-year, two-mill (a mill is a dollar of tax for every $1,000 of taxable value) regional tax to provide additional funds to local districts within the county. The funds are discretionary, leaving districts to use them as they deem appropriate. Wayne RESA does not receive any money from the millage. It collects the tax and distributes the revenue to districts on a per-pupil basis. Because DPSCD has the largest enrollment in the county, it receives the largest share of the roughly $80 annual million levy. Detroit’s FY2017 share is budgeted at $16.5 million, accounting for over one-third of the change in year-end fund balance. These are recurring funds that will be available through FY2022 when voter authorization of the millage expires. Voters had not approved the millage when DPSCD’s original budget was adopted, but the funding is reflected in the current budget.

---


3 At the time of the transition, DPS was under the control of Emergency Manager Judge Steven Rhodes. Judge Rhodes was appointed to serve as the Transition Manager from DPS to DPSCD until a new school board could be seated in January 2017, following elections in November 2016.

4 The Detroit Financial Review Commission was established in state law to oversee City of Detroit finances after the City’s historic bankruptcy. The Commission’s charge was expanded as part of the DPS financial rescue package to include oversight of the new Detroit school district’s finances.
Table 1
Detroit Public Schools Community District FY2017 Adopted and Amended Budgets (dollars in millions)

<table>
<thead>
<tr>
<th></th>
<th>FY2017 Adopted</th>
<th>FY2017 Amended</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local sources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special education millage</td>
<td>$ 38.8</td>
<td>$ 40.0</td>
<td>$ 1.2</td>
</tr>
<tr>
<td>ISD enhancement millage</td>
<td>16.5</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Payments from EAA</td>
<td>2.4</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11.9</td>
<td>15.6</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total local</strong></td>
<td>50.7</td>
<td>74.5</td>
<td>23.8</td>
</tr>
<tr>
<td>State sources</td>
<td>445.8</td>
<td>439.6</td>
<td>-6.2</td>
</tr>
<tr>
<td>Federal sources</td>
<td>141.8</td>
<td>151.5</td>
<td>9.7</td>
</tr>
<tr>
<td>**Total Revenue (1)</td>
<td>$638.3</td>
<td>$665.6</td>
<td>$ 27.3</td>
</tr>
<tr>
<td><strong>Other Financial Sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of assets</td>
<td>$ 6.0</td>
<td>$ 9.5</td>
<td>$ 3.5</td>
</tr>
<tr>
<td>Payment from DPS</td>
<td>25.0</td>
<td>40.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Transfer from Food Service</td>
<td>2.3</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Sources (2)</strong></td>
<td>$33.3</td>
<td>$52.4</td>
<td>$19.1</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>$332.1</td>
<td>$333.3</td>
<td>$ 1.2</td>
</tr>
<tr>
<td>Support services</td>
<td>317.4</td>
<td>314.8</td>
<td>-2.6</td>
</tr>
<tr>
<td>Community services</td>
<td>4.2</td>
<td>5.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Facilities</td>
<td>0.6</td>
<td>0.1</td>
<td>-0.5</td>
</tr>
<tr>
<td><strong>Total Expenditures (3)</strong></td>
<td>$654.3</td>
<td>$653.6</td>
<td>-0.7</td>
</tr>
<tr>
<td><strong>Surplus (Deficit) = (1)+(2)-(3)</strong></td>
<td>$ 17.3</td>
<td>$ 64.4</td>
<td>$ 47.1</td>
</tr>
</tbody>
</table>

Source: Detroit Public Schools Community District

The DPSCD operating budget also benefits from a transfer of funds from DPS. The district will receive a total of $40.7 million from DPS this year: $25 million from the state emergency loan provided to DPS in July (for capital improvements) and another $15.7 million representing DPS's FY2016 year-end cash balance. Of the $25 million for capital improvements, approximately $8 million was programmed for FY2017 with the remaining $17 million scheduled for future years. The $15.7 million transfer, unknown at the time of the original budget, represents one-third of the improvement in the year-end fund balance under the amended budget. These funds are a one-time financing source to support the FY2017 budget and will not be available in future years.

The amended budget also recognizes almost $10 million from the sale of district assets, an increase of $3.5 million from the original budget. While these one-time resources are available to support current year expenditures, they cannot be programmed to finance recurring expenditures.

Also of note, the total amount of projected expenditures reflects staffing vacancies, including 134 classroom teaching positions. The district’s spending would be $20 million greater if these positions were filled. These vacancies aid the year-end surplus projection. If these positions remain unfilled, then these savings can be considered recurring; however, if some of the teaching positions are filled under
subsequent budgets, the savings will be limited to FY2017 only.

Overall, it is clear that the condition of the FY2017 budget has improved since the start of the year. The projected year-end surplus has nearly quadrupled. Measured as a percent of district expenditures, the projected year-end surplus equates to about a 10 percent operating surplus.

From a historical perspective, a positive year-end balance is significant. Multi-million dollar deficits were the norm for DPS over the last ten years. The last time Detroit’s main public school district had a positive year-end surplus was FY2007 ($7.2 million) and the last time the district approached the projected FY2017 surplus level was FY2003 ($74.7 million).

**Chart 1** shows the history of Detroit Public School’s General Fund year-end fund balance in nominal terms and as a percent of expenditures.

However, the budget improvement is muted a bit when the one-time revenues/resources are factored out. In total, these one-time resources account for about two-thirds ($44 million) of the total projected surplus. This leaves an operating surplus (current revenues over current expenditures) of approximately $20 million, or just three percent. If the current classroom vacancies aiding the General Fund budget are filled (estimated at $20 million) in the next budget, the current operating surplus is likely to disappear entirely.
**Student Enrollment**

The most important financial input to any school district’s operating budget is student enrollment. Michigan funds public school districts based on the number of students enrolled, giving the most weight to the fall enrollment count. Fewer students results in fewer overall resources, requiring districts to downsize their budgets because options to increase revenue, at least in the short term, are almost nonexistent. If enrollment declines are severe in the short run, districts will find it very challenging to balance their budgets and deficits are likely to occur. Years of significant declining student enrollment can result in annual and mounting deficits that districts are unable to address.

For years, a major cause of DPS’s financial struggles was the severe annual loss of student enrollment. These losses were a function of both the shrinking Detroit population and Detroit parents exercising school choice options to send their children to other public schools, including charter schools located in the City of Detroit as well as schools (public and charter) located outside of the City.5

**Chart 2** shows the recent history of student enrollment in DPS (through 2015-16) and DPSCD (2016-17). Dramatic, often double-digit, annual percentage declines in the number of students attending DPS schools continued through 2012-13 (note: the steep decline in 2012-13 is largely a function of the placement of 15 DPS schools (and students) in the Education Achievement Authority (EAA)). Since 2012-13, enrollment continues to decline but at a much more moderate rate, suggesting some degree of stabilization. The fall 2017 count showed 45,720 students enrolled in DPSCD (including 1,819 non-resident students from other districts). This was down 2.5 percent from the fall 2016 student count (46,912 students).

---

Cash Flow

Cash is needed to pay bills when due and maintaining a positive cash position is critical because the timing of the collection of receipts and the timing of payments each month is not perfectly aligned. Having cash on-hand is key as Michigan school districts do not receive a September state aid payment but still have monthly expenses they need to cover.

The improved FY2017 budget picture is reflected in DPSCD’s monthly cash flow, both actual and projected. Chart 3 compares cash flow projections under the adopted FY2017 budget with the actual experience and updated projections for the remainder of the year. The chart shows actual cash flow experience through April 2017 and projections for May and June.

Overall, the average month-end cash balance has improved by about $13 million, from roughly $40 million under the adopted budget to $53 million under the recent revisions. This improvement is attributable to many of the same factors contributing to the year-end surplus; one-time transfers, enhancement millage, asset sales, and staffing vacancies. The bottom line is that DPSCD will end FY2017 with a better cash position than where it began the year.

DPSCD’s improving cash position stands in stark contrast to that of its predecessor, DPS. Many Michigan school districts have to borrow to meet cash flow needs, especially during August through October because of the timing of state aid payments. While DPS regularly borrowed to meet its needs, it also had to borrow to finance its prior year operating deficits. The debt service payments for both cash flow borrowing (required to be repaid within the year) as well as deficit financing (multi-year repayment) caused a serious strain on the district’s ability to stay current with its monthly obligations and maintain a positive cash position.

For FY2017, DPSCD is not burdened with cash flow borrowing payments, in part because it received $25 million as part of the $150 million loan to DPS for transitional operating costs. Further, the new district was relieved of DPS’s nearly $1,100 per student debt service obligation tied to prior year deficits. The projected $55 million year-end cash balance may reduce the need to do cash flow borrowing to begin the 2017-18 school year.

Chart 3
Detroit Public Schools Community District FY2017 Month-End Cash Balance

Source: Detroit Public Schools Community District
On-Going and Future Challenges

There is little doubt that the state’s financial rescue package for DPSCD has stabilized the short-term financial situation for Detroit’s main public school district. Better financial management and tight controls provided the district with a solid kick start, while it remains under strict state fiscal oversight by the Financial Review Commission. With a newly-elected school board and the recent selection of DPSCD’s first superintendent, the main concern becomes the future and what factors could derail the district’s financial turnaround.

Improved Academics

Needless to say, the number one priority for the new school district state must be an emphasis on improving the academic performance of the students. The scores from standardized test results show that Detroit Public Schools has been the worst-performing urban school district in the nation for many years.

Efforts to improve the academic results may achieve short-term results, but all parties must recognize at the outset that real change is not going to occur over night. The demographics of the student population means that some children starting kindergarten have not been read to on a regular basis and start their education careers behind many others. Students in the middle grades may not have the building blocks necessary to engage in a rigorous high school curriculum. And high school students have just a few years to gain the skills needed to be employable or prepared for higher education. It will take years for positive changes to improve academic outcomes at all grade levels.

Improved academics needs to be the highest priority because it will affect many other factors that will play a role in determining the success or failure of the new school district. State accountability measures aim to address underachieving schools by closing those that are chronically achieving poor results. The attractiveness of the district for Detroit parents deciding where to enroll their children in a highly competitive environment will depend largely on the perception that a rigorous education can be gained at the DPSCD schools. Each of these factors will affect the financial wellbeing of the school district in a system funded on a student basis.

School Closures

Forced school closings could impact the district’s finances significantly. While closings would relieve the district of some fixed costs associated with operating school buildings, especially under-utilized buildings, they can result in a net enrollment loss and revenue decline if students leave DPSCD altogether and enroll in a charter school or another district outside Detroit.

In early 2017, 38 schools in 10 districts across Michigan were subject to a possible closure review by the State School Reform Office under provisions of state law. These schools have appeared in the lowest five percent of schools on the state’s top-to-bottom ranking of schools for at least the last three years. The closure sanction was added to the law as part of the Detroit financial rescue package. Following the review, the School Reform Office was authorized to close schools after the conclusion of the 2016-17 school year.

Of these 38 schools subject to possible closure, 24 are DPSCD schools (including eight Education Achievement Authority schools that will be folded into DPSCD on July 1). The fate of the 24 Detroit schools was recently changed with the announcement of an agreement between the Michigan Department of Education and DPSCD. This agreement suspends the forced closure of some, or all, of these schools by the State School Reform Office. Further, it delays any possible forced closure until after June 30, 2020. Such closures would have been a serious blow to the financial foundation of DPSCD, as the schools collectively enroll almost 11,000 students, about one-quarter of the district’s total enrollment. While imminent closures have been staved off for now, some schools may still be closed in the future, either for academic reasons or because of low enrollment.
The recent announcement of a new “partnership agreement” between the district, Wayne County Regional Educational Service Agency, Michigan Department of Education, and State School Reform Office means that the 24 academically struggling “partnership schools” will remain open until after the 2019-20 school year. The specific academic improvements for each DPSCD school are not outlined in the current agreement, but will be forthcoming. Also, it is not clear from the agreement, what the next level of school accountability will be if improvements are not realized. This means that closures remain an option, albeit not immediately.

Student Enrollment

The size of the public education market (the number of children of school age attending public school) in Detroit continues to shrink. For the 2016-17 school year, 108,977 Detroit resident students enrolled in public schools in Michigan, including schools operated by DPSCD, other traditional districts, charter schools (inside and outside Detroit), and the Education Achievement Authority. This is down from 142,774 Detroit residents enrolled in public schools in FY2009-10 (see Chart 4). The largest single-year decline occurred in 2010-11 when 11,360 fewer school children enrolled in public school, an eight percent reduction. Since then, the Detroit market shrunk just two percent or less each of the last four years, suggesting some degree of stabilization.

In addition to shrinking market size, the fierce competition for Detroit students among districts remains. This adds further enrollment pressure to those entities providing services to Detroit school children. Student enrollment market shares are constantly changing, as shown in Chart 4. Generally, students are moving out of DPS/DPSCD to charter schools located inside and outside the City of Detroit. The DPS/DPSCD market share has declined from 61 percent in 2009-10 to 40 percent in 2016-17. Conversely, charter schools’ collective share has increased from 31 percent in 2009-10 to 47 percent in 2016-17. Although the Detroit public school district continues to lose market share to charters, the annual loss has moderated at one percentage point per year for the last few years. This decline still serves as a financial pressure to the district.

The reduction in the Detroit market combined with market share changes have resulted in DPS/DPSCD no longer being the majority educator of Detroit residents. As of the 2012-13 school year, charter schools located inside and outside the city limits, as a group, are responsible for educating more Detroit students than the main public school district.

While the education market continues to shift, DPSCD stands to gain a substantial enrollment bump next fall (2007-18) when the Education Achievement Authority (EAA) schools are folded back into the main Detroit public school district under last year’s Detroit schools legislation. This effectively reverses the shift of EAA schools out of DPS that occurred in 2012-13. Enrollment in the EAA has declined substantially during its time in operation and currently stands at 4,704 students (down from 8,783 students in 2012-13). At current EAA enrollment levels, the shift will provide DPSCD with a 10 percent enrollment increase in 2017-18. These students will bring with them the per-pupil foundation dollars currently going to the EAA. Of course, some of these students may decide to enroll in charter schools or other districts outside of Detroit.

Underutilized Facilities

With the steady student enrollment declines over the decades, DPS has closed a number of underutilized schools and consolidated programs. From 2000-01
A Progress Report on Detroit Public Schools Community District Finances

Lorem ipsum dolor sit amet, consectetur adipiscing elit.

While summaries the distribution of utilization rates for DPSCD/EAA schools based on 2015-16 enrollment by type of school: K-8 schools (71 schools), high schools (27 schools), as well as the cohort of “partnership schools” (24 schools) recently identified for school improvement over the next three years. While one-third of the high schools (nine schools) had a utilization rate of 75 percent or greater, one-quarter of the high schools (average capacity of about 1,100 students) were below the 25 percent utilization rate.

Relative to the high school cohort, far fewer K-8 schools (10 percent) had a utilization rate of 75 percent or more in 2015-16. However, no K-8 schools had a utilization rate of 25 percent or less. Fourteen of the 24 “partnership schools” (about 60 percent) had a utilization rate of 50 percent or less.

DPSCD can ill-afford to continue to use its buildings so inefficiently. Maintaining and operating half-empty schools is much more expensive, on a per-pupil basis, than schools at full capacity because of the various fixed costs associated with buildings. These fixed costs are spread across fewer students in underutilized buildings, driving up per-pupil costs for the district. This inefficiency competes for the district’s limited resources that otherwise could be directed to the classroom. With the very thin operating sur-

7 The 24 partnership schools include both DPSCD and EAA schools and consist of both K-8 and high schools. These schools also appear in the separate groupings of “K-8 schools” and “high schools” for the purpose of **Chart 5**.

**Chart 5**
School Utilization Rate in DPSCD Buildings by Grade Configuration for 2015-16 School Year

<table>
<thead>
<tr>
<th>Utilization Rate (Enrollment/Capacity)</th>
<th>Number of Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 75%</td>
<td>9</td>
</tr>
<tr>
<td>50% to 75%</td>
<td>7</td>
</tr>
<tr>
<td>25% to 50%</td>
<td>4</td>
</tr>
<tr>
<td>less than 25%</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Detroit Public Schools Community District
plus being generated by DPSCD in 2016-17, a major capital expenditure for an old and/or underutilized school in the coming year or two could jeopardize the district’s financial stability.

In the coming year, DPSCD will have to examine current and future enrollment trends based on demographic and student mobility patterns, current school utilization rates (relative to building capacity), and the geographic location of schools across the City of Detroit. Ultimately, facility closures will have to be considered as an option, in addition to program consolidations.

Conclusion

After years of state oversight and being under the control of a state-appointed emergency manager, Michigan’s largest school district is now in the hands of a locally elected school board. The “new” Detroit public school district, Detroit Public Schools Community District, began operations last July debt free and with a balanced budget, the first time in over 10 years. The “old” Detroit Public Schools district is functioning solely to repay various legacy debts and all of its K-12 education responsibility has been turned over to DPSCD.

The new Detroit school district has maintained, and improved, its near-term financial health. This is seen in its growing year-end budget surplus, now estimated at $64 million, and positive cash flow. With the aid of better financial management, the budget picture improved largely because of a number of one-time revenue items and holding the line on spending. Additionally, the passage of the Wayne county regional school operating tax in November 2016 (Detroit’s share of this tax is estimated to be about $17 million) will provide the district with additional resources.

Budget improvement is also a function of a large number of position vacancies, including nearly 130 teaching slots. Current-year spending levels do not reflect nearly $20 million related to these unfilled positions.

Long-term budget improvement is much less when one-time resources are factored out. In total, one-time resources account for about two-thirds ($44 million) of the total projected year-end surplus. This leaves an operating surplus (current revenues over current expenditures) of approximately $20 million. If the current classroom vacancies aiding the General Fund budget were filled (estimated at $20 million), the current operating surplus would likely disappear entirely.

While the district’s near-term financial situation is stable, its prospects for long-term financial success will depend on its ability to address at least three key challenges. First, the district must stabilize its student enrollment going forward to ensure a solid financial foundation. While the Detroit education market remains somewhat fluid with the continued opening and closing of education alternatives inside and outside the City of Detroit and movement of children to these alternatives, it appears that the massive annual enrollment declines common during the mid- to late-2000s have subsided. Recent student enrollment losses have been in the two percent range for the last four years. Enrollment stability will assist with the long-term financial planning necessary to build an academic program that allows the district to improve student achievement, undoubtedly the most pressing challenge the district faces.

Second, the district will have to address the chronic student achievement failures that have caused students to flee to alternative schools and left DPS as the worst-performing urban school district in the nation. This will require targeting resources to in-
terventions that build long-term, sustainable student improvement. At the same time, to stem the exodus of students and to begin to build confidence with parents, academic reforms must show short-term success. Detroit parents and families are going to need to know immediately that the “new” district has broken with the “old” DPS and is serious about preparing students to be successful.

Finally, there are way too many half-empty schools spread across the City of Detroit. The cost of maintaining and operating these schools siphons valuable resources away from classroom instruction, support services, and other academic programs. The district recently earned a reprieve from the threat of forced closures for poor academics in certain schools by the State School Reform Office. The new partnership agreement between the Michigan Department of Education and DPSCD, which staved off closures for three years, will provide near-term stability for the new board, superintendent, and administration and provide time to allow the district to begin to move the academic needle in its poor performing schools.

As it works through the new agreement with the state, the district is going to have to comprehensively address the current use of its facilities and increase allocative efficiency. As hard as they are, schools closures and program consolidations must remain an option if the district wants to maintain the financial stability created by new leadership, improved management, state oversight, and additional state funds.

---

**YES! I want to help in the support of sound public policy in Michigan!**

**NAME** ________________________________

**ADDRESS** ________________________________________________________________

**EMAIL / PHONE** ____________________________________________________________

- I wish to make a one-time, tax-deductible gift of: $ ____________
- I wish to pledge a total of $ ____________ with an initial payment of $ ____________.
- I would like my contribution to support: Annual Fund Endowment
- Please mark my gift:
  - Anonymous
  - In Honor Of: ______________________________________________________________
  - In Memory Of: ____________________________________________________________
- Gift will be matched by: _______________________________________________________  

Or donate online at [www.crcmich.org](http://www.crcmich.org)