



# Detroit Public Schools Financial Crisis

CRC Webinar  
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## **Current Situation**

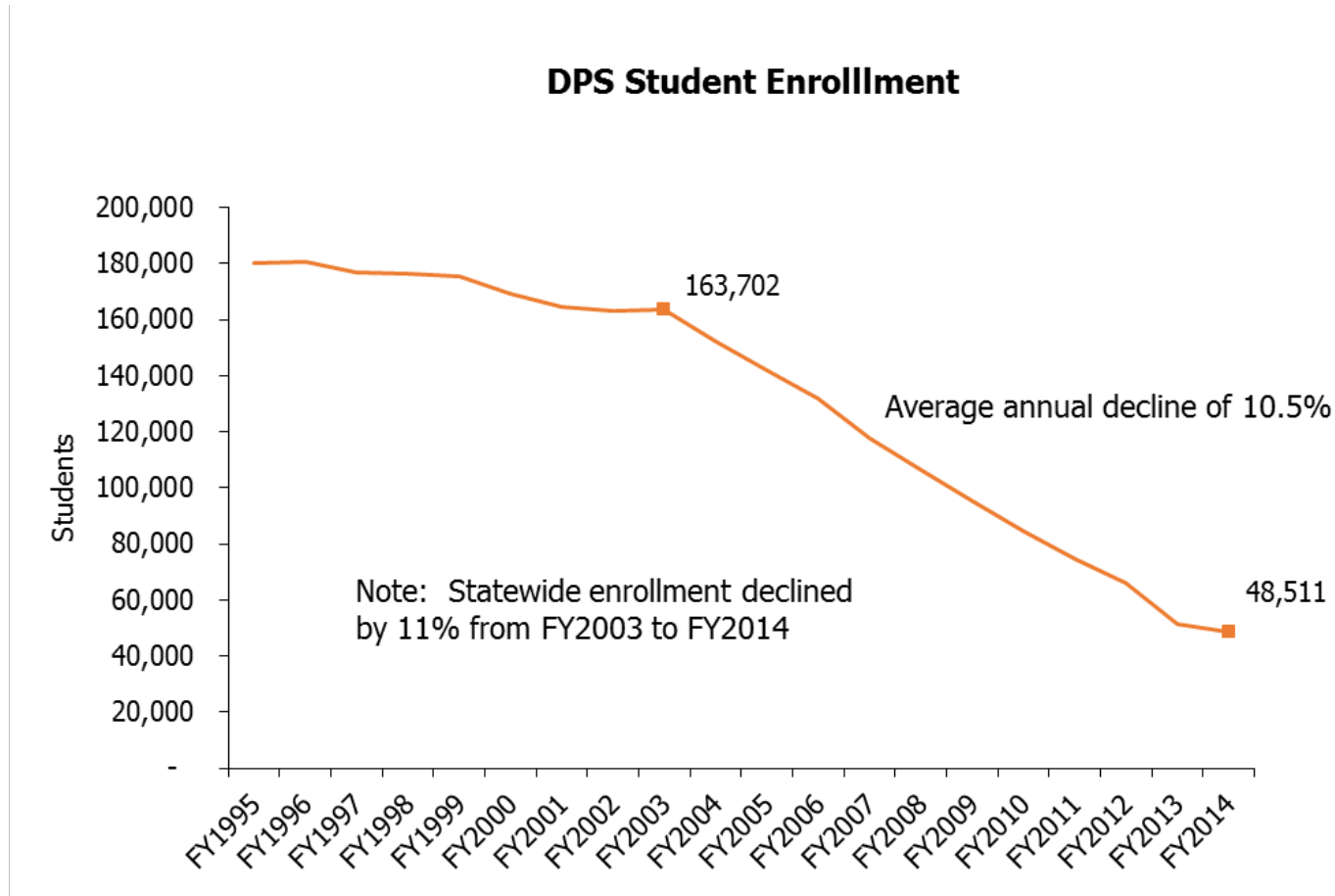
### *Nothing Short of a Crisis*

- Crisis years/decades in the making
- Four state-appointed emergency managers since 2009; each unable to solve financial problem
- General Fund deficit balloons from \$83M (FY2012) to \$335M (FY2016)
- Legacy debts total \$423M at start of this year
- DPS continues to hemorrhage students (revenue)
- Academic performance at bottom, both in Michigan and nationally
- Aging and deteriorating capital facilities



# Enrollment Plummets 70% Since FY03

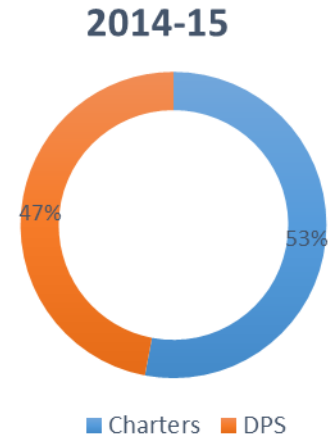
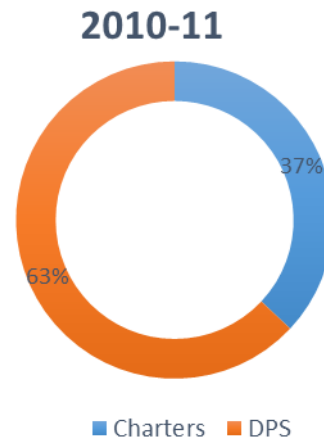
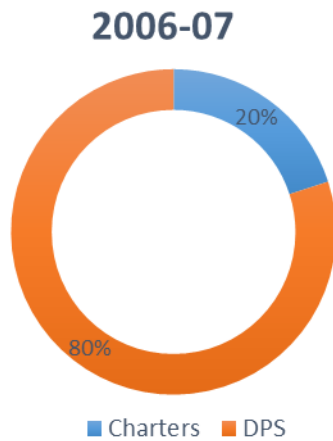
*Declining Enrollment Since Early 1970s*



Source: Michigan Department of Education

# Charter Schools Expand Role in Detroit

## Share of Detroit Public School Children Attending Charter Schools

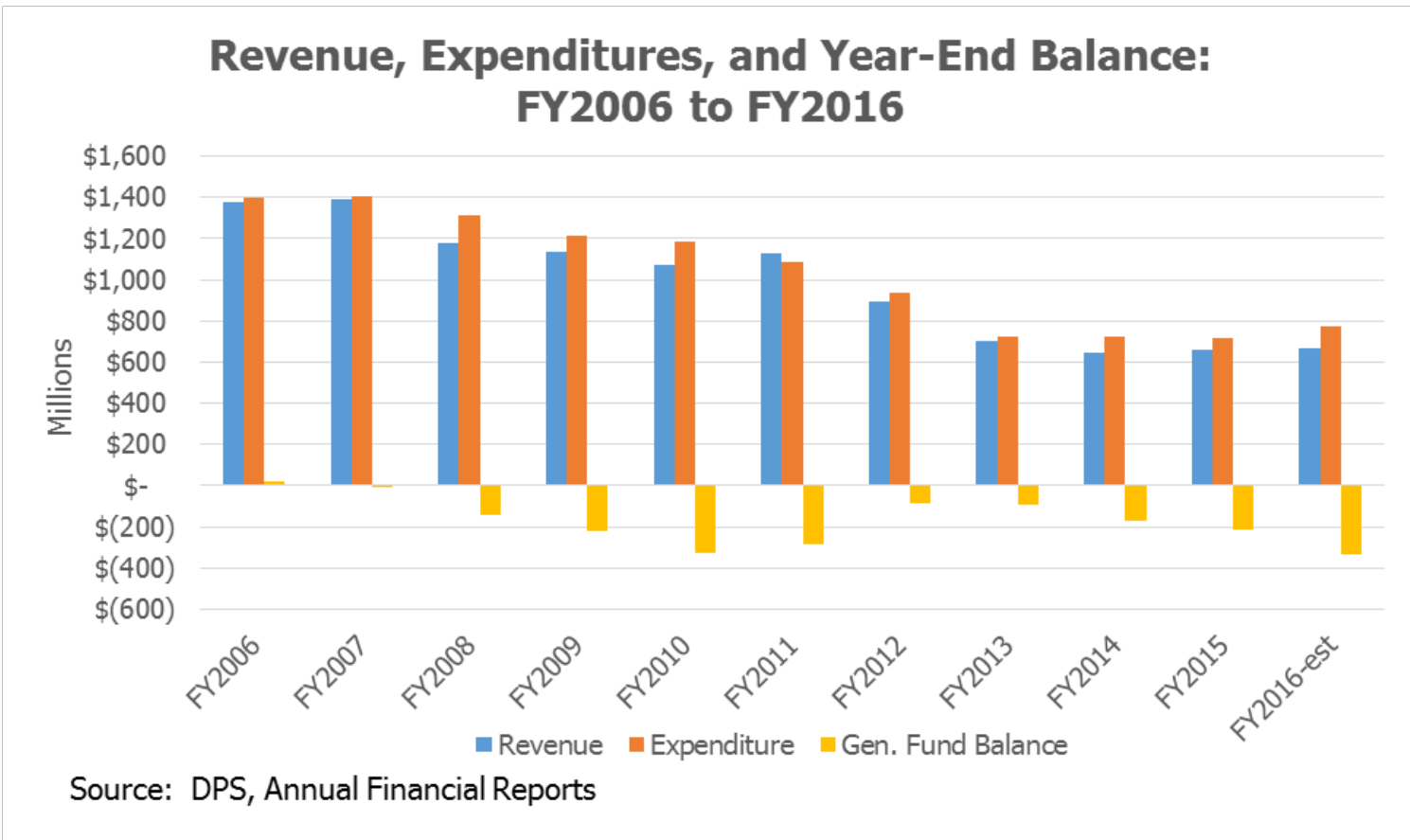


Source: National Alliance for Public Charter Schools

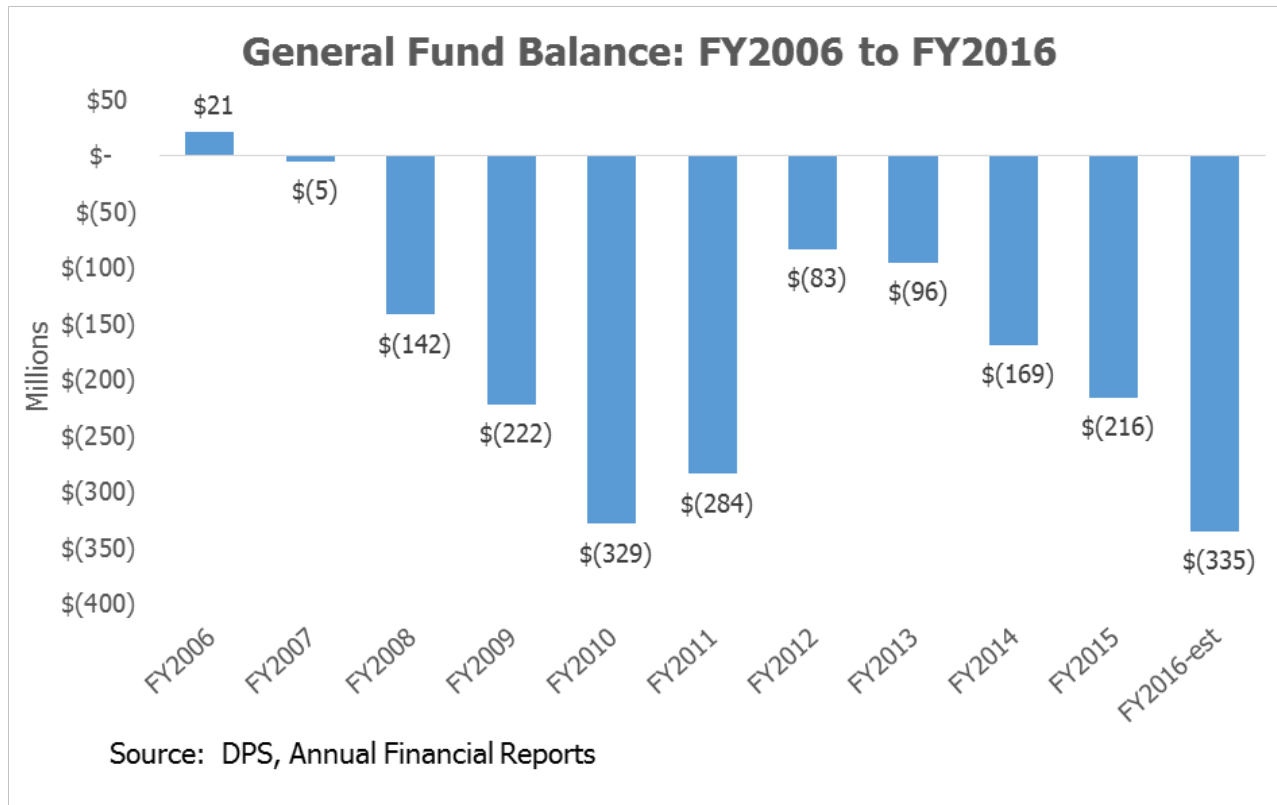
*Charters Educate More Detroit Children Than DPS*

# Spending Declines, but Not Fast Enough

*District Overspent Nine of Last Ten Years*



## Deficit Grows Every Year



*\$231M in Bonds Issued to Pay Down FY2011 Deficit*



# Emergency Managers' Responses

## *Convert Short-Term Debt to Long-Term Debt*

- Unable to address the structural imbalance in DPS finances, officials have repeatedly pushed costs into the future, examples:
  - 2009 – Termination Incentive Plan
  - 2011 and 2015 – Refinanced cash flow notes
  - 2015 – Unpaid pension contributions
- Additionally, growing legacy costs for retired employee benefits associated with state system
- Result: Costs being borne by current students





## Total Debts of \$3.5B *Operating Liabilities of \$1.9B*

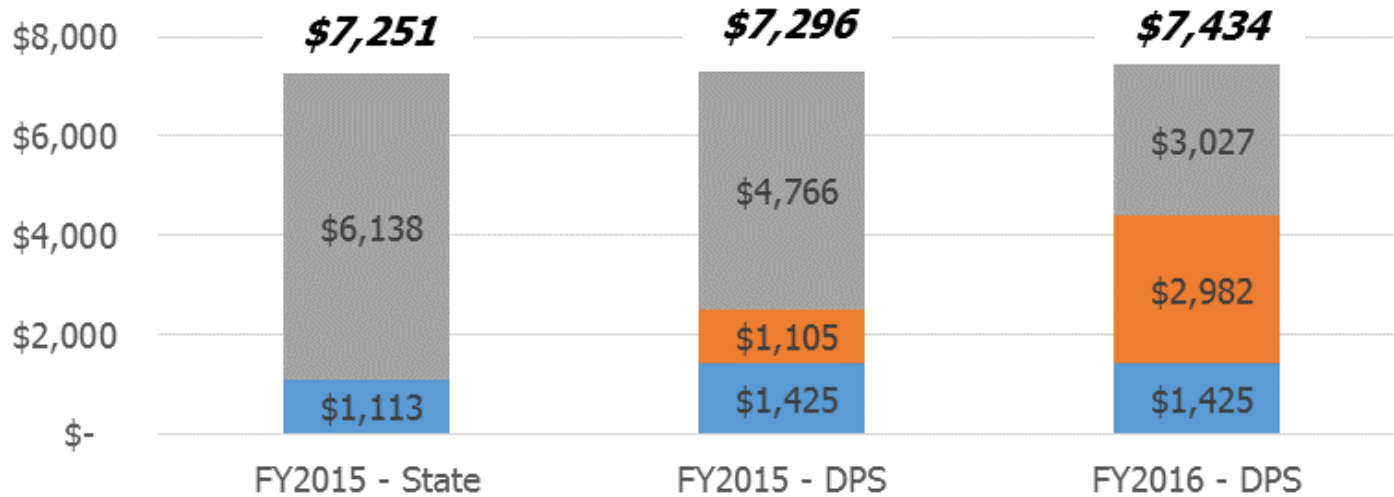
### Detroit Public Schools Legacy Costs and Other Liabilities, 2015 (Dollars in millions)

<u>Operating Liabilities</u>	<u>Amount</u>
MPSERS – Pension Unfunded Actuarially Accrued Liability	\$872.7
MPSERS – Retiree health Unfunded Actuarially Accrued Liability	443.8
Delinquent MPSERS payment (principal and interest)	80.9
Termination Incentive Plan – UAAL	16.6
Refinanced 2005 and 2011 cash flow borrowings	259.2
Refinanced 2014 cash flow borrowing	82.8
2015 cash flow borrowing	<u>121.0</u>
<i>Subtotal – operating liabilities</i>	<i>\$1,877.0</i>
<u>Capital Liabilities</u>	
“Qualified” general obligation bonds	1,452.1
School Loan Revolving Fund loan (principal and interest)	<u>198.7</u>
<i>Subtotal – capital liabilities</i>	<i>\$1,650.8</i>
<b>Total</b>	<b>\$3,527.8</b>

Source: Comprehensive annual financial reports of Detroit Public Schools from multiple years, comprehensive annual financial reports of the Michigan Public School Employees Retirement System, official prospectuses for various borrowings by Detroit Public Schools, and State of Michigan sources. Information is reported for the most recent fiscal year (FY2015) when available.

# Legacy Costs and Debt Service Account for 60% of Per-Pupil Grant in FY2016

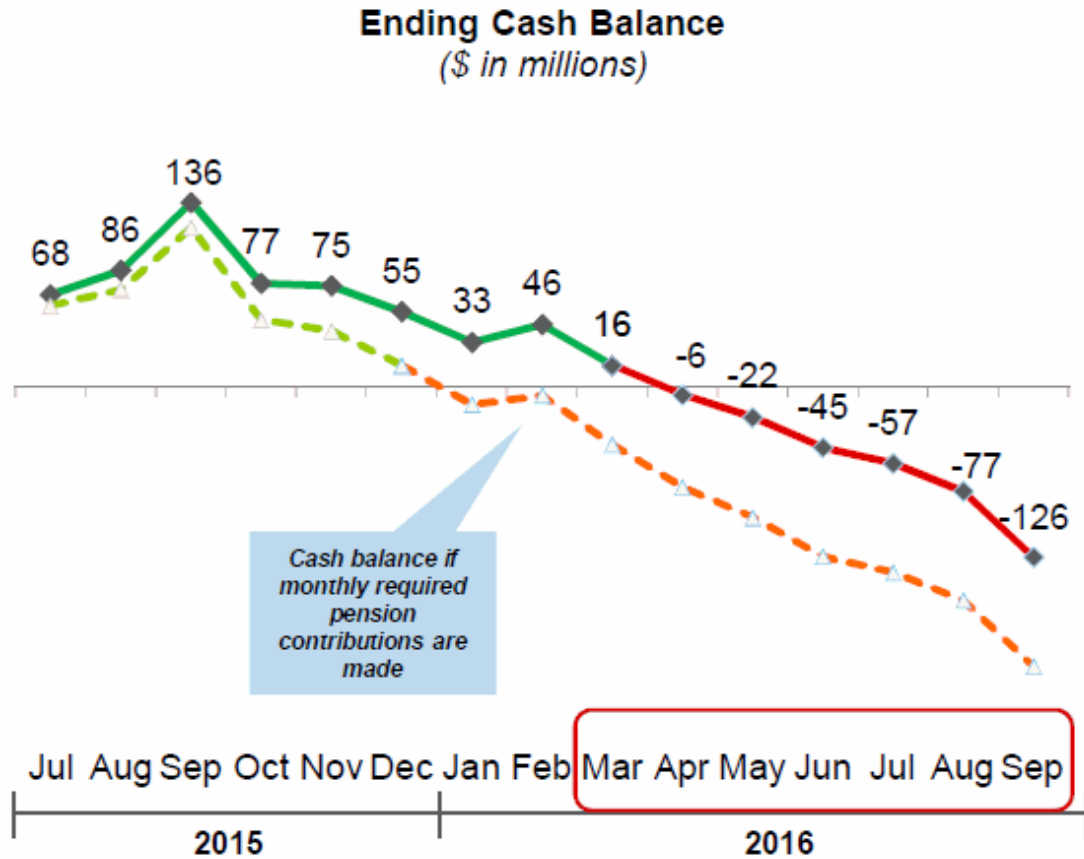
Allocation of Per-Pupil Foundation Allowance



Allocated For:

- employee legacy costs
- debt service
- current operations

# District Faces Cash Crunch in April



Source: Michigan Department of Treasury



## Assessment of Financial Situation

- Emergency manager law not effective for DPS
- Current students paying price for past decisions
- Financial solution will have to involve substantial additional state resources
- At least three major problems must be addressed to set up the district for long-term success: financial, academic, and governance
- Waiting for legislative response
- Time to act was YESTERDAY!

# Legislative Response

## *Focus on Debts*

- Two bills introduced last week (SB 710-711)
- Financial plan only, does not deal with larger governance issues or academic challenges
- Divides district into two entities
  - “Old” district retains taxing auth. to pay debts
  - “New” district established to educate students
- “New” district governed by an 9-member appointed board (initially), then an elected board (Jan. 2017)
- City of Detroit’s Financial Review Commission (FRC) responsible for overseeing “new” district’s finances

## **Financing DPS Debts**

### *Use of the 18-Mill Operating Tax*

- Same mechanism used in other debt-laden districts
- Repurpose the local operating tax used to fund the per-pupil grant
- “Old” district would use this tax to repay debts
  - Reduces amount of local funds available
  - Requires School Aid Fund dollars to fund grant
  - Est. \$71M per year diverted until debts repaid
- Debts include unpaid retirement bills, emergency loans, cash flow borrowings

# If the Legislature Fails to Act

## *Bankruptcy Likely Only Option*

- Chapter 9 is an option under EM law
- Unlike City of Detroit, nearly all of DPS's \$1.9B operating debts are backed by State of Michigan
  - \$1.3B unfunded retirement liabilities fall to other districts and state
  - Various cash flow borrowings issued by Michigan Finance Authority
- Capital debt/loans (\$1.7B) secured by property tax
- Either way, state responsible for DPS debts



## Structural Challenges

*Even if Debts Settled, Other Issues Remain*

- Declining student enrollment likely to continue
- DPS covers 140 sq. miles (~100 schools)
- Employee legacy costs equal to 21% of payroll
- Structure of school funding model
- High concentration of at-risk and special education students
- Financing capital facilities is a local responsibility
- Term limits and prospects for a long-term fix





## CRC Publications

- *Detroit Public Schools' Legacy Costs and Indebtedness*, January 2016
- *Paying for Former Students' Education with Today's Dollars*, November 2015
- *Snyder's DPS for Plan May Ultimately Hinge on Local Vote*, October 2015
- *State Assumption of School Debts*, April 2015

Available at:

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# Questions



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