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No. 1032 **October 1994**

DETROIT SCHOOL DISTRICT $1.5 BILLION BOND PROPOSITION

The Detroit School District is asking for voter approval on November 8, 1994 to issue $1.5 billion in unlimited tax general obligation bonds to finance a comprehensive capital improvement program for remodeling and rehabilitating existing school buildings, for new construction and site acquisition, and for equipment for both existing and new buildings. The school district is preparing, with the assistance of Barton-Malow Company, a comprehensive capital improvement plan covering every school building and facility. The preliminary cost estimates submitted to the state are over $1.5 billion.

The Proposed Capital Program

The program includes almost $1.0 billion for remodeling and equipping current schools and $600 million for new buildings and equipment. The school district plans a 12 year capital program that would be completed in the year 2007. The district would renovate about 200 of the current regular school buildings. About 60 current school buildings would not be renovated because renovations would cost 65 percent or more of the replacement costs and those buildings built before 1917 would not be renovated. In terms of new construction, the district contemplates building 36 new elementary schools, 6 new middle schools and 4 new high schools.

The school district bases the need for the capital program on two basic facts:

1.) The current buildings are old, have been poorly maintained and are run down. Over half (151) of the school facilities currently in use (294) were built before 1930 and are over 64 years old. Many are in poor condition and need major repairs and few, if any, of the buildings are built for modern technology.

2.) The school district is projecting an enrollment increase of upwards of 20,000 students by the year 2000 and major shifts within the city.

According to figures reported to the state department of education, capital outlay expenditures in Detroit have been relatively modest compared to statewide averages. In the past ten years, Detroit has spent an average of $127 per pupil annually on capital outlay, less than one-half of the statewide average. In the past 10 years, Detroit has had only one voter approved bond issue: $162 million in 1986, which was to be sold over a six to ten year period. As of September 30, 1993, all of the bonds were issued and $107 million was spent through June 30, 1994. The remaining $57 million is committed and will be spent by the end of 1995.

The proposed $1.5 billion bond issue is very large, but so is the enrollment in Detroit. The proposed bond issue is $8,900 per pupil. Ballot proposals for bond issues exceeding $1.0 million will be voted on in 31 Michigan school districts this Fall. The median request is for $7,600 per pupil and in 12 of these 31 districts the proposed bond issue is larger per pupil than in Detroit.

However, the proposed Detroit bond issue is second highest as a percent of the 1993-94 state equalized value in the school districts (26.9%).

The Proposed Bond Program

The $1.5 billion bond issue is far larger than the total current outstanding debt of the Detroit School District of $290 million or the total overlapping general obligation debt, which includes city, county and school debt, of $725 million. While the city and county are subject to debt limits of 10 percent of their respective state equalized values, there is no limitation on the indebtedness of school districts.

State School Bond Loan Fund The ability of the school district to borrow as much as $1.5 billion is enhanced by the existence of a state school bond loan fund under which the state guarantees the repayment of qualified local school district bonds. In effect,. the full faith and credit of the state and its taxing power stands behind the bonds, which makes the local school district bond issue credit-worthy and reduces the interest rate. The state school bond loan fund also protects local taxpayers from unduly burdensome property taxes for debt by providing that the school district has to levy a maximum of 13 mills to repay qualified debt and, if more millage is needed for debt service, the state will lend the school district the excess over 13 mills. This loan has to be repaid to the state with interest by continuing to levy up to 13 mills even after the original bond issue has been repaid.

The proposed $1.5 billion Detroit school bond issue is predicated on both the state school bond loan fund guarantee and the 13 mill cap. The state has given pre-qualification approval to submit the issue to the voters. if approved, the state would then review and qualify each series of issues of the $1.5 billion in bonds and the projects to be financed.

The Bond Issue The district plans to issue 30 year bonds in a series of issues over the next ten or more years totaling $1.5 billion. It is projected that at a 6.25 percent interest rate (assumed over the next ten years) the $1.5 billion bond issue would require interest payments of almost $1.85 billion over the life of the bonds, including $100 million in interest to the state for borrowing from the school bond loan fund. The total debt service requirement for principal and interest would be $3.35 billion.

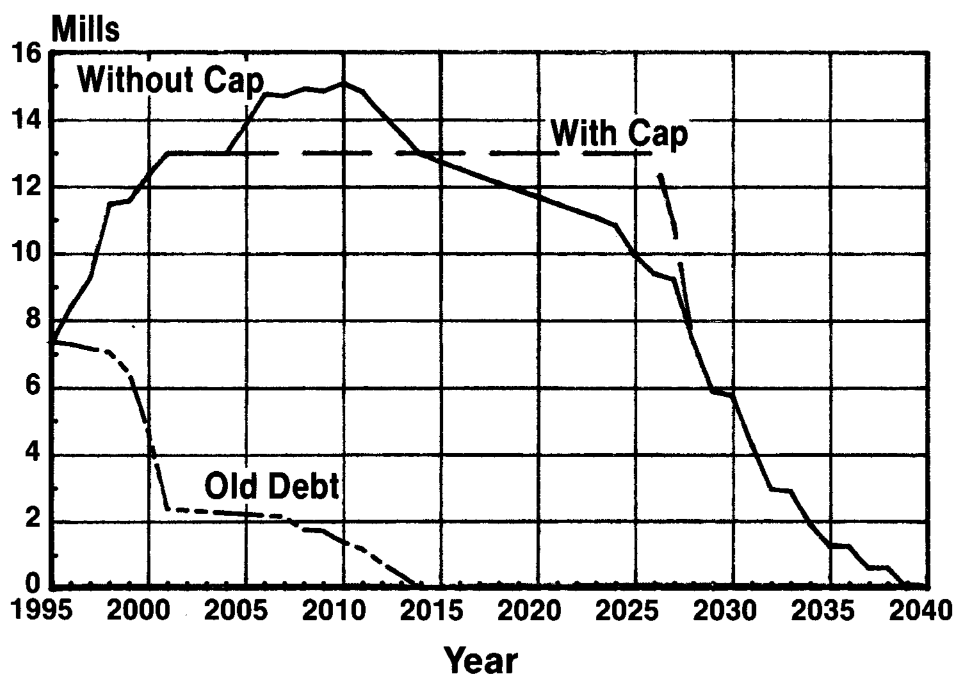
Impact On The Debt Tax Rate

The proposed $1.5 billion unlimited tax bond issue will pledge that the district will levy whatever millage is needed to repay the bonds. In the past five years, the district has levied between 4.7 and 7.5 mills for debt service on existing capital and deficit bonds. As shown in the chart, the current outstanding $290 million in bonds will require about a 7 mill debt levy over the next several years and then decline to under 2.4 mills by 2001 and be fully repaid in 2014. The new debt millage would increase gradually until 2001 when the new and old debt millage combined would reach the maximum 13 mills required by the state school bond loan fund. For the next 25 years, until 2026, the district would levy 13 mills, which would then decline gradually and the debt would be retired in the year 2039.

These millages are the preliminary estimates submitted by the district to the state and assume an average annual increase of 1.78 percent in the state equalized value of the district. While this has been the growth rate over the past five years, the average annual increase in the district over the past 18 years has been only .88 percent, half the rate used in the projections. The assumed compounded growth rate used for state equalized value has a major impact on the projected tax rate needed to pay debt service.

The operating millage of the school district has dropped as a result of Proposal A from 41 mills to 6 mills on homestead property and to 24 mills on non-homestead property, a decline of 35 mills on homestead and 17 mills on non-homestead property. A 6 mill increase in the debt service tax rate in the short term and a 13 mill increase over the long term would partially offset the recent property tax reduction.

Detroit Public Schools: Estimated Debt Millage



Conclusion

The proposed $1.5 billion school capital improvement bond program is a major long-term decision to be made by the voters in Detroit on November 8, 1994. The major arguments "Pro" and "Con" are as follows:

Pro

School buildings and equipment in Detroit are old and in poor condition. Total enrollments will increase and shift within the city. A massive capital investment is needed to meet the needs of the students into the 21st Century.

Con

The proposed $1.5 billion bond issue is too large and the school district is asking for a blank check. While there is a need for major capital improvements, this is a long-term program that should be presented to the voters in installments.

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Pro

- The district is developing with expert outside consultants a comprehensive capital improvement program covering every school building and facility that will benefit every student in the district.

- While a $1.5 billion bond issue is large, so is the need. The bond issue represents a long term capital investment of less than $9,000 per pupil. Twelve Michigan school districts with bond issues on the ballot this Fall are asking for bond issues of more than $9,000 per pupil.

- The bond issue will require a 5.65 mill increase over the current 7.35 mills for debt service, but the school operating rate has declined by 35 mills on homestead property and 17 mills on non-homestead property, so there will still be a major tax reduction. The state loan guarantee will protect taxpayers from having to pay more than 13 mills in debt service.

- The $1.5 billion capital improvement program will be prioritized by the school board and implemented over the next 10-15 years. The bonds will be issued as needed and the state will review and approve each phase of the bonding program.

Con

- There is concern about the ability of the school district to manage a $1.5 billion capital program. The $162 million bond issue approved by the voters in 1986 has not been spent after eight years.

- A $1. 5 billion bond issue will cost at least $1.85 billion in interest, assuming a 6.25 percent interest rate which may be optimistic over the long-term. The bonds wouldn't be retired until the year 2039, 45 years from now.

- While the Increase in debt service taxes will be 5.65 mills in the short run, it will be 13 mills in the long-run. Taxes in Detroit are too high. They discourage people from living and doing business in the city and depress property values. While Proposal A brings some property tax relief, property taxes in Detroit will still be about 77 percent higher than the state average and the total tax burden in the city is still about four times the state average.

- The school district should complete its homework, develop a comprehensive capital improvement plan based on priorities that can be implemented incrementally, develop a broad consensus among all elements of the community and then over time submit a series of bond proposals to the voters.