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DETROIT SCHOOL FINANCES

The Detroit School District appears to be facing an immediate fiscal crisis of substantial proportions. If the July, 1970 through February, 1971 rate of expenditure were to continue through the remainder of the fiscal year, the June 30, 1971 deficit would approximate \$30 million. The board of education has approved substantial expenditure reductions, but it does not seem likely that a sizeable deficit will be avoided.

Although the district experienced operating deficits in both fiscal 1968 and fiscal 1970, the rate of deficit spending has been precipitous in the current year. In November, 1966, Detroit voters approved a five-mill tax increase that yielded the district a \$24 million revenue increase in fiscal 1967-68. Expenditure commitments absorbed the full increase the first year it was available and the district had a \$6.6 million accumulated deficit at the close of the 1968 fiscal year. The accumulated deficit dropped to \$3.5 million in 1969 and rose to \$9.9 million in 1970. In fiscal 1970-71, the district will have a deficit from current operations of \$8 million to \$20 million, depending on the effectiveness of the recent expenditure reductions. On June 30, 1971 the accumulated deficit will be in the range of \$18-\$30 million.

FISCAL 1970-71: WILL THE REAL BUDGET PLEASE STAND UP?

The school district appears to have had three general fund budgets in the fiscal year 1970-71 which began on July 1, 1970: 1) the tax allocation budget adopted by the board in April, 1970 which provided for general fund expenditures of \$274 million; 2) the revised general fund budget which was adopted by the board in December, 1970, which authorizes general fund expenditures of \$220 million; and, 3) a "working" general fund budget under which the school district appears to have operated through February, 1971, of about \$249 million. All of the budget figures exclude about \$26 million in expenditures financed from federal aid.

Tax Allocation Budget. By law the school board is required to submit a budget to the county tax allocation board annually by the third Monday in April. The tax allocation budgets submitted by the school district, Wayne County and the Detroit public library are considered by the tax allocation board in their allocation of the 15 mill property tax limit among these units.

The school district tax allocation budget provided for expenditures of \$274 million, and specified a "current" property tax levy of \$191 million or 36 mills. A tax levy of this size would have required an allocation to the school board of 23.5 mills from within the overall 15 mill limit, clearly an impossibility.

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The tax allocation board continued the old millage allocations--6.10 mills to the county, .64 mill to the library, and 8.26 mills to the Detroit school district. Following this action by the tax allocation board, the Detroit board of education took no formal action either to obtain voter approval for levying the extra voted millage required to finance the \$274 million proposed budget or to reduce proposed expenditures to the level of available revenues. Thus, when the school district's fiscal year began on July 1, 1970, the tax allocation budget was the only budget that had been approved by the board.

Revised Budget. On December 22, 1970, ~~more than~~ six months after the fiscal year began, the board of education adopted a revised budget. The revised budget provided for revenues estimated at \$220.3 million and expenditures in the same amount including \$9.3 million to fund the deficit carried over from the previous year. The revised budget was \$3.6 million out-of-balance on the face of it because no provision was made for a reserve for tax delinquency (\$3.0 million) and the deficit from the prior year was understated by \$600,000.

The "Working" Budget. The school district appears to be operating under neither the tax allocation budget nor the revised budget. Rather, it has apparently been operating under a "working" budget that provides for general fund expenditures of about \$249 million as compared to the \$274 million provided in the tax anticipation budget and the \$220 million provided in the revised budget. This "working" budget has never been formally adopted by the board of education. Since it apparently contemplated \$249 million in expenditures and revenues of only \$220 million, the "working" budget was out of balance by \$29 million.

The board of education at its February 18 meeting took action to reduce the rate of expenditures contemplated under the "working" budget by \$12 million. What the board apparently did was to approve cuts in expenditure levels that the board had never formally approved in the first instance. Even if these reductions are in fact accomplished, the school district will still incur a current operating deficit of about \$8 million and will face an accumulated deficit as of June 30, 1971 of about \$18 million.

Eight months of the current fiscal year have elapsed. Will the real budget please stand up?

WHY A BALANCED BUDGET?

It is, of course, the responsibility of the superintendent and of the board of education to propose any increases in expenditures and increases in taxes or other revenues that they feel are required. But if the tax allocation board, the voters or the legislature do not provide the increased taxes or revenues required to finance the proposed expenditures, it is then the responsibility of the superintendent and school board to balance the budget within available revenues.

The temptation to do otherwise is great because the "needs" are often greater than available resources. But failure to do so will result in a financial crunch that requires disassembly of what has been built, the disappointment of the clientele of the governmental unit, and a loss of public confidence in the institution itself. The temporary advantages of living beyond available means are more than offset by the inevitable necessity of drastic cut-backs and the long and arduous task of climbing back to firm ground.

In addition, the budget plays a vital role in the democratic processes of our government.

- We live under a government of laws, not of men. The budget as a legal document, adopted by representatives elected by the people and subject to popular control and scrutiny, constitutes the legal authorization to spend the public money and to tax the public. The absence of a legally adopted budget, or the failure to comply with it, is an abdication of the legal authority and responsibility of the representatives elected by the people to determine how much public money is to be spent and for what purposes.
- The government of law that we live under is also a limited government--limited by the people in the state constitution and limited by statutes adopted by the representatives of the people. The budget is an indispensable device for maintaining a limited government under law. The people in adopting the constitution have limited the amount of property taxes that can be imposed for school purposes without vote of the people and the legislature has required that school districts adopt and operate under a balanced budget. Taken together, these provisions are clearly designed to limit expenditures to the amount of taxes that can be raised within legal limits.
- Finally, the budget plays a vital role in keeping government responsible and accountable to the people. The importance of this is emphasized by constitutional and statutory requirements that local units "shall adopt such budgets only after a public hearing".... If the budget formally adopted by the elected school board is not the budget under which the school district actually operates, then responsibility and accountability to the voters is obscured if not negated. The public has a basic right to know what its money is being spent for and where the money spent is coming from.

The budget as adopted by the board of education should set forth in financial terms the goals, objectives and programs of the board; the personnel, supplies and equipment to be used in accomplishing these objectives; and, the means of financing the program. As presently constituted the budget of the Detroit board of education fails to meet basic requirements for sound budgeting. It is proposed that the budget of the Detroit board of education be revised as follows:

1. The budget should be comprehensive and cover all anticipated revenues and proposed expenditures, including federal aid.
2. The budget should include comparative revenue and expenditure data for the preceding and current fiscal years.
3. As required by law a public hearing should be held on the budget prior to its adoption.
4. The budget should be adopted prior to the beginning of the fiscal year on July 1.
5. As required by law, the budget as adopted by the board of education should be balanced and the board should operate under that balanced budget.

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6. The school board should receive a continuous flow of information throughout the fiscal year regarding the financial condition of the school district and should make required changes in the budget by formal action.

These are not the only requirements for a sound budgeting system, but they are basic to responsible and effective management of the school system. The budgeting system will be of critical importance to the successful operation of the decentralization plan.

The new board of education should give top priority to the development and implementation of sound fiscal policies and procedures that will enable the school board to clearly demonstrate the fiscal needs of the district, to allocate resources most effectively, and to maintain the financial equilibrium of the district.