



**DETROIT PUBLIC SCHOOLS**  
Darnell Earley, ICMA-CM, MPA  
Emergency Manager



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February 27, 2015

Mr. R. Kevin Clinton  
State Treasurer  
Michigan Department of Treasury  
430 West Allegan Street  
Lansing, Michigan 48922

**RE: Emergency Manager's Financial & Operating Plan and Educational Plan for the School District of the City of Detroit ("DPS" or the "District")**

Dear Treasurer Clinton,

Enclosed for your review and consideration is the amended Financial and Operating Plan (the "Plan") for DPS in accordance with Section 11(1) of Public Act 436 of 2012. The Plan includes the Education Plan as required by Section 11(2).

The Plan provides an overview of the District's current situation, highlights the operational structure and challenges, and begins to lay the foundation of the guiding principles and steps necessary to return the District to financial and operational stability.

**Current Situation**

- DPS has lost significant revenue over the past several years due to enrollment declines, property tax delinquencies, and competing schools.
- Revenue declines have outpaced expenditure reductions. The problem is further exacerbated by the significant fixed component of certain District costs.
- Though some schools receive high marks, the overall educational outcomes of the District are inadequate and unacceptable.
- The accumulated deficit balance was \$169.5 million as of June 30, 2014, an increase of \$76 million from the prior year.
- There is significant pressure on the District's cash needs as it addresses recurring operating losses in addition to short and long-term obligations outstanding of \$444 million.

## Operational Structure and Challenges

- DPS is facing declining enrollment due to population loss, as well as the inadequate performance of DPS and the availability of other options for parents.
- DPS receives \$13,000 of revenue per student, but spends \$15,000 per student. The overall spend per student is driven by the following:
  - DPS has higher operating costs compared to other districts in Michigan due to a combination of legacy and operational costs. DPS also has relatively higher personnel-related and debt service costs;
  - From an operational standpoint, DPS serves a higher proportion of special education and other high-need populations, which can be significantly more costly, all of which is not subsidized by federal or grant sources;
  - DPS also incurs higher transportation costs relative to other education providers;
  - Based on publicly available information, it appears that other education providers spend approximately \$9,000 per student.

## Education and Operational Plan

- The transformation of DPS will take time and cannot be fully accomplished before the next school year begins.
- DPS will focus on a 10-point plan to provide the guiding principles on which to focus during the transition, including the following:
  - Governance
  - Staff Development
  - Organizational Development
  - Comprehensive Funding Strategy
  - Cash Flow Stability
  - Academic Competitiveness
  - Higher Education/ Collaboration
  - Special Education
  - Transportation
  - Customer Service
- A comprehensive plan for Detroit must address chronically failing schools and parent choice by creating high quality options for all students. This plan will also require addressing DPS-owned facilities and the excess capacity within the system.
- The long-term solution will require cooperation with the State of Michigan, City of Detroit, the Coalition for the Future of Detroit Schoolchildren (the “Coalition”), and other key constituents in order to be successful.
- Fiscal year 2016 will be a transitional year, but will need to be a year of targeted cost reductions in areas that do not impact the quality of education delivery in order to provide the runway for structural change toward sustainability.

The Plan also includes, as appendices, the latest version of the Deficit Elimination Plan (“DEP” as amended on December 17, 2014), Amended 2014-15 Budget (as amended on December 15, 2014), and Amended Academic Plan (as amended on February 24, 2015). The DEP, budget, and academic plan will need to be continually reevaluated in consultation with the Michigan Department of Education as the District works to stabilize itself financially and operationally, while delivering acceptable educational outcomes.

Next steps anticipated will include:

- Convening a summit of education service providers, which will consider the Coalition's recommendations (due March 31, 2015), with the goal of achieving the following:
  - A moratorium on creating new schools before autumn 2015;
  - Establish a working group to identify shared facility opportunities and potential closure of substandard facilities across DPS;
  - Establish a special education task force to address location of classes, enrollment rules, long-term strategy, and funding formulas;
- Exploring statutory changes with stakeholders and legislators that will level the playing field for all schools in the delivery of educational services;
- Evaluating existing schools and programs in order to determine potential closures, consolidations, or relocations prior to start of 2015-16 school year in September;
- Consideration of options regarding the potential for restructuring District obligations.

A strong public school system is essential to the future of Detroit, as well as the State of Michigan. The ultimate goal of this plan is to create a district that is both financially solvent and educationally competitive.

Respectfully submitted,

A handwritten signature in black ink that reads "Darnell Earley". The signature is written in a cursive style with a prominent initial "D" and a long horizontal stroke at the end.

Darnell Earley  
Emergency Manager  
School District of the City of Detroit

Cc: Thomas F. Saxton, Chief Deputy Treasurer  
Mike Flanagan, State Superintendent of Instruction