



Order 2016-EMSR-05

ORDER
ADOPTING THE AMENDED FISCAL YEAR 2015-16 BUDGET
FOR THE SCHOOL DISTRICT OF THE CITY OF DETROIT

BY THE POWER AND AUTHORITY VESTED
IN THE EMERGENCY MANAGER
FOR THE SCHOOL DISTRICT OF THE CITY OF DETROIT, MICHIGAN
("EMERGENCY MANAGER") PURSUANT TO MICHIGAN'S
PUBLIC ACT 436 OF 2013, THE LOCAL FINANCIAL
STABILITY AND CHOICE ACT,
STEVEN W. RHODES, THE EMERGENCY MANAGER,
ISSUES THE FOLLOWING ORDER:

Whereas on March 28, 2013, the Local Financial Stability and Choice Act, Public Act 436 of 2012, ("Public Act 436") became effective and was enacted to, among other matters, safeguard and assure the financial accountability of local units of government and school districts; to preserve the capacity of local units of government and school districts to provide or cause to be provided necessary services essential to the public health, safety, and welfare; to provide for review, management, planning, and control of the financial operation of local units of government and school districts and the provision of services by local units of government and school districts; to provide for the appointment and to prescribe the powers and duties of an emergency manager for a local unit of government or school district; and to provide for the modification or termination of contracts under certain circumstances; and

Whereas, pursuant to that certain contract titled *Professional Services Agreement* dated February 29, 2016 between Governor Rick Snyder and Steven W. Rhodes ("Rhodes"), Rhodes was appointed as the Emergency Manager under Public Act 436 for the School District of the City of Detroit (the "District"); and

Whereas, pursuant to Public Act 436, the Emergency Manager has broad powers in receivership to rectify the financial emergency and to assure the fiscal accountability of the school district and its capacity to provide or cause to be provided necessary educational services essential to the public health, safety and welfare; and

Whereas, pursuant to Public Act 436, the Emergency Manager acts in place of local officials, specifically the Detroit Board of Education (the “Board”) and the Chief Administrative Officer of the District, and unless the Emergency Manager delegates specific authority, the Emergency Manager is empowered to exercise any powers of the Chief Administrative Officer and/or the Board under the Revised School Code, State School Aid Act or any other law which prescribes authority to the local Superintendent or school board; and

Whereas, Public Act 436 more fully describes the duties, responsibilities and powers of the Emergency Manager to alleviate the financial emergency and provide or cause to be provided educational services essential to the public health, safety and welfare; and

Whereas, it is the Emergency Manager’s role to remedy the distress of the District by requiring prudent fiscal management and efficient provision of services so that students may think and act innovatively, demonstrate high performance and meet the highest expectations; and

Whereas, the District’s Fiscal Year 2015-16 Budget was approved as of June 30, 2015 by the then emergency manager, to be effective as of July 1, 2015 (the “FY 2016 Budget”); and

Whereas, the FY 2016 Budget may be revised and/or amended to reflect the changes in revenues and/or expenditures as deemed necessary by the Emergency Manager in accordance with MCL § 141.1552 (1) (b); and

Whereas, the Emergency Manager has deemed it necessary to revise and amend the FY 2016 Budget as particularly set forth in the Amended FY 2016 Budget for the School District of the City of Detroit attached hereto as Exhibit “A” (the “Amended FY 2015-16 Budget”).


NOW, THEREFORE IT IS HEREBY ORDERED THAT:

1. Pursuant to the powers granted under Public Act 436, the

Emergency Manager hereby adopts the Amended FY 2015-2016 Budget in the form attached hereto as Exhibit "A".

2. That the relevant District personnel shall assist in the implementation of this Order.

This Order may be amended, modified, repealed or terminated by any subsequent Order issued by the Emergency Manager.

By: 

Steven W. Rhodes
Emergency Manager
School District of the City of Detroit

Dated: April 7, 2016



TO: Judge Steven Rhodes, Transition Manager

FROM: Marios Demetriou, Deputy Superintendent of Finance and Operations

SUBJECT: Fiscal Year 2016 Budget Amendment # 2

DATE: April 7, 2016

CC: Alycia Meriweather, Interim Superintendent
Delores Brown, Executive Director, Finance
Michael Bridges, Financial Controller
Marc Ingram, Acting Executive Director, Office of Management & Budget

The Fiscal Year 2015-2016 (FY 2016) budget amendment No. 2 is based on a comprehensive review of actual and projected financial data and analysis. The following is a summary of the significant changes to the General Fund by function since budget amendment No. 1. Significant changes are defined as variances greater than or equal to 10% or variances greater than or equal to \$1,000,000.

REVENUES

Local Sources – Based on past history, the District does not anticipate receiving revenue for rentals and services provided to the Education Achievement Authority. As a result, anticipated revenue declined \$6.4 million.

State Sources – The District will receive \$48.7 million in Emergency Funding from the State of Michigan. The Gang Prevention and Intervention (\$460,000) and the Early Literacy Diagnostic Tolls (\$280,000) budgets were established based on the March 2016 State Aid Financial Status Report. Various other revenue increases totaling \$420,000 account for the total change in this functional category.

Federal Sources – The IDEA (\$2.2 million) and Title IIA (\$1.4 million) budgets increased based upon the best available information. Various other revenue increases totaling \$70,000 account for the total change in this functional category.



EXPENDITURES

Instructional Staff – During Budget Amendment # 1, a journal entry related to the central office reorganization incorrectly posted \$3.2 million in personnel expenses to Business Office. The journal has been corrected, and the personnel expenses have been moved to the appropriate functions including \$1.7 million for Instructional Staff Support.

The Title IIA budget increased \$1.2 million primarily attributed to Instructional Specialists for the Department of Curriculum.

These increases are offset an \$810,000 reduction in the Title IA budget primarily attributed to administrator costs for the Division of Finance and Operations.

Various budget increases totaling \$130,000 account for the total change in this functional category.

General Administration – During Budget Amendment # 1, a journal entry related to the central office reorganization incorrectly posted \$3.2 million in personnel expenses to Business Office. The journal has been corrected, and the personnel expenses have been moved to the appropriate functions including \$528,000 for General Administration.

Business Office – In Budget Amendment # 1, the District recognized \$4.5 million in interest for our State Anticipation Note 2015B (SAN) and the associated fees in Business Office. Going forward, the District will treat SAN interest and the associated fees as Debt Service to be in alignment with our financial statements.

During Budget Amendment # 1, a journal entry related to the central office reorganization incorrectly posted an additional \$3.2 million in personnel expenses to Business Office. The journal has been corrected, and the \$3.2 million in personnel expenses have been moved to the appropriate functions.

Various budget decreases totaling \$500,000 account for the total change in this functional category.

Central Support – During Budget Amendment # 1, a journal entry related to the central office reorganization incorrectly posted \$3.2 million in personnel expenses to Business Office. The journal has been corrected, and the personnel expenses have been moved to the appropriate functions including \$980,000 for Central Support.

Various budget increases totaling \$380,000 account for the total change in this functional category.

Facilities Acquisition – The Great Start Readiness Grant budget was realigned, which increased the equipment budget by \$138,000.

Debt Service - In Budget Amendment # 1, the District recognized \$4.5 million in SAN interest and the associated fees in Business Office. Going forward, the District will treat SAN interest and the associated fees as Debt Service to be in alignment with our financial statements.



Furthermore, the SAN Interest budget increased \$6.3 million to recognize interest associated with the State Anticipation Note 2015E.

**DETROIT PUBLIC SCHOOLS
GENERAL FUND
BUDGET AMENDMENT # 2
YEAR ENDING JUNE 30, 2016**

	FY 2016 - Adopted	FY 2016 - Budget Amendment # 1	FY 2016 - Budget Amendment # 2	ACTUALS FY 2016 - As of March 31, 2016	FY 2016 - Budget Increase (Decrease)	FY 2016 - Budget Amendment # 2 (Over) Under FY 2016 ACTUALS
Revenue:						
Local sources						
Special education millage	\$ 41,286,622	\$ 31,777,479	\$ 31,777,479	\$ 20,183,296	\$ -	\$ 11,594,183
Property Taxes	68,909,286	68,909,286	68,909,286	48,449,336	-	20,459,950
Other	19,951,002	20,327,728	13,934,450	3,853,504	(6,393,278) ¹	10,080,946
Total local sources	130,146,910	121,014,493	114,621,215	72,486,136	(6,393,278)	42,135,079
State sources	374,687,957	379,799,809	429,660,056	307,724,441	49,860,247 ²	121,935,615
Federal sources	161,816,409	157,267,522	160,941,659	104,388,047	3,674,137 ³	56,553,612
Total Revenue	666,651,276	658,081,824	705,222,930	484,598,624	47,141,106	220,624,306
Expenditures:						
Instruction						
	369,806,595	339,616,473	339,505,433	215,585,377	(111,040)	123,920,056
Support services						
Pupil services	67,475,547	57,751,789	57,706,830	35,189,015	(44,959)	22,517,815
Instructional staff support	78,767,242	69,471,607	71,701,361	40,497,969	2,229,754 ⁴	31,203,392
General administration	6,014,996	3,936,016	4,464,900	3,207,968	528,884 ⁴	1,256,932
School administration	38,643,121	37,432,237	37,594,136	25,147,474	161,899	12,446,662
Business office	14,973,752	17,195,690	8,994,005	8,714,406	(8,201,685) ^{4,5}	279,599
Operations & maintenance	76,991,231	74,579,753	74,835,192	61,053,722	255,439	13,781,470
Transportation	33,136,259	37,008,894	37,194,522	23,075,470	185,628	14,119,052
Central support service	28,567,954	28,161,744	29,522,183	20,875,072	1,360,439 ⁴	8,647,111
Other support service	1,048,955	885,382	885,007	1,025,750	(375)	(140,743)
Total support services	345,619,057	326,423,112	322,898,136	218,786,846	(3,504,976)	104,111,290
Community service	4,127,371	5,084,394	4,596,346	4,548,130	(488,048)	48,216
Facilities acquisitions and improvement	440,000	440,000	577,896	-	137,896 ⁶	577,896
Debt service	53,002,094	53,002,094	63,849,494	39,754,040	10,847,400 ^{5,7}	24,095,454
Total Expenditures	772,995,117	724,566,073	731,427,305	478,674,393	6,861,232	252,752,912
Other Financial Sources (Uses)						
Sources						
Proceeds from sale of capital assets	3,046,000	3,046,000	3,046,000	-	-	3,046,000
Transfers In	2,256,058	2,256,058	2,256,058	881,050	-	1,375,008
Total Sources	5,302,058	5,302,058	5,302,058	881,050	-	4,421,008
Uses						
Prior Year Adjustments	4,101,692	-	-	2,038,613	-	2,038,613
Total Uses	4,101,692	-	-	2,038,613	-	2,038,613
Total Other Financial Sources (Uses)	9,403,750	5,302,058	5,302,058	2,919,663	-	2,382,395
Excess (deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses						
	(96,940,091)	(61,182,191)	(20,902,317)	8,843,894	40,279,874	(29,746,211)
Beginning Fund Balance	(215,931,917)	(215,931,917)	(215,931,917)	(215,931,917)		
Ending Fund Balance	\$ (312,872,008)	\$ (277,114,108)	\$ (236,834,234)	\$ (207,088,023)		

1. This is due to the Education Achievement Authority not reimbursing the District.
2. Primarily attributed to the \$48.7 million provided by the State of Michigan.
3. Primarily attributed to additional IDEA and Title IIA funding.
4. An incorrect journal entry caused Business Office to be overstated. The journal has been corrected, and the expenses moved to the appropriate functions.
5. SAN interest moved to Debt Service to be in alignment with DPS' financial statements.
6. Attributed to a realignment of the Great Start Readiness Program Budget.
7. SAN interest for Note 2015E has been added to the budget.

**DETROIT PUBLIC SCHOOLS
FOOD SERVICE FUND
BUDGET AMENDMENT # 2
YEAR ENDING JUNE 30, 2016**

	<u>FY 2016 - Adopted</u>	<u>FY 2016 - Budget Amendment # 1</u>	<u>FY 2016 - Budget Amendment # 2</u>	<u>ACTUALS FY 2016 - As of March 31, 2016</u>	<u>FY 2016 - Budget Increase (Decrease)</u>	<u>FY 2016 - Budget Amendment # 2 (Over) Under FY 2016 - ACTUALS</u>
Revenue:						
Local sources						
Other	\$ -	\$ -	\$ -	\$ 235,274	\$ -	\$ (235,274)
Total local sources	-	-	-	235,274	-	(235,274)
State sources	2,800,000	2,800,000	2,800,000	1,273,965	-	1,526,035
Federal sources	39,921,995	42,020,897	43,570,897	29,992,075	1,550,000 ¹	13,578,822
Total Revenue	42,721,995	44,820,897	46,370,897	31,501,314	1,550,000	14,869,583
Expenditures:						
Support services						
Personnel	15,668,480	15,544,983	15,674,477	9,993,864	129,494 ²	5,680,613
Purchased Services	1,892,809	2,315,065	2,315,065	1,072,151	-	1,242,914
Supplies	22,772,286	23,486,140	23,356,646	15,258,274	(129,494) ²	8,098,372
Equipment & Capital	132,362	1,218,651	1,218,651	729,580	-	489,071
Discounts on Food Service Sales	-	-	1,550,000	-	1,550,000 ¹	1,550,000
Total support services	40,465,937	42,564,839	44,114,839	27,053,869	1,550,000	17,060,970
Total Expenditures	40,465,937	42,564,839	44,114,839	27,053,869	1,550,000	17,060,970
Other Financial Sources (Uses)						
Uses						
Transfers Out	(2,256,058)	(2,256,058)	(2,256,058)	(881,050)	-	1,375,008
Total Uses	(2,256,058)	(2,256,058)	(2,256,058)	(881,050)	-	1,375,008
Total Other Financial Sources (Uses)	(2,256,058)	(2,256,058)	(2,256,058)	(881,050)	-	(1,375,008)
Excess (deficiency) of Revenue Over (Under) Expenditures	-	-	-	3,566,395	-	(3,566,395)
Beginning Fund Balance	6,146,057	6,146,057	6,146,057	6,146,057		
Ending Fund Balance	\$ 6,146,057	\$ 6,146,057	\$ 6,146,057	\$ 9,712,452		

1. Added Discount on Food Service Sales to the budget along with the corresponding USDA Entitlement Commodities Revenue.

2. Transferred funds from the Food Supply Budget to fund additional clericals and Food Service Assistants.