

DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT



PROPOSED OPERATING BUDGET YEAR-ENDING JUNE 30, 2017

Table of Contents

| | |
|--|----|
| I. TRANSMITTAL LETTER | 2 |
| II. ORGANIZATIONAL CHART..... | 3 |
| III. MAJOR PLANNING ASSUMPTIONS | 4 |
| IV. PROPOSED BUDGETS FOR DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT | 10 |
| V. PROPOSED BUDGETS FOR DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT OTHER GOVERNMENTAL FUNDS | 13 |



DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT

Judge Steven Rhodes,

Transition Manager

Dear Detroit Community:

This document proposes a budget for an organization that will begin operations on July 1, 2016. As a result of State legislation, the Detroit Public Schools Community District will then have the responsibility to educate more than 45,000 children in the city of Detroit. This new school district will give the students, teachers, and staff who currently make up the Detroit Public Schools the opportunity for a fresh start.

The Detroit Public Schools have faced many challenges over the last several years. The budget presented here begins to address those challenges. Thanks largely to the State's recent investment in the District and the right-sizing of our central office over the past year, the budget proposed here is a balanced budget and is based on realistic assumptions, without the need to issue new debt. This honest budget will enable the new district to pay its hard-working employees and vendors when our obligations are due, allowing us to regain the public's trust and attract and retain the best people to work in our schools.

This budget does more than just meet our current and historical financial obligations – it also makes important investments in academic innovation, student safety, and improved facilities. This year, we will offer several new academic programs for our students, such as the first public Montessori/Open School program in Detroit, enhanced blended learning at A.L. Holmes Elementary-Middle School, an over-age English Language Learner classroom at Priest Elementary-Middle School, and the Cooke S.T.E.M. Academy in North Rosedale Park. The District has made investments in improving its financial accountability and transparency as well; chief among them is the reinstatement of the Office of the Inspector General to ensure that the fraudulent actions of a few individuals do not stain the reputation of the District and its dedicated and committed employees.

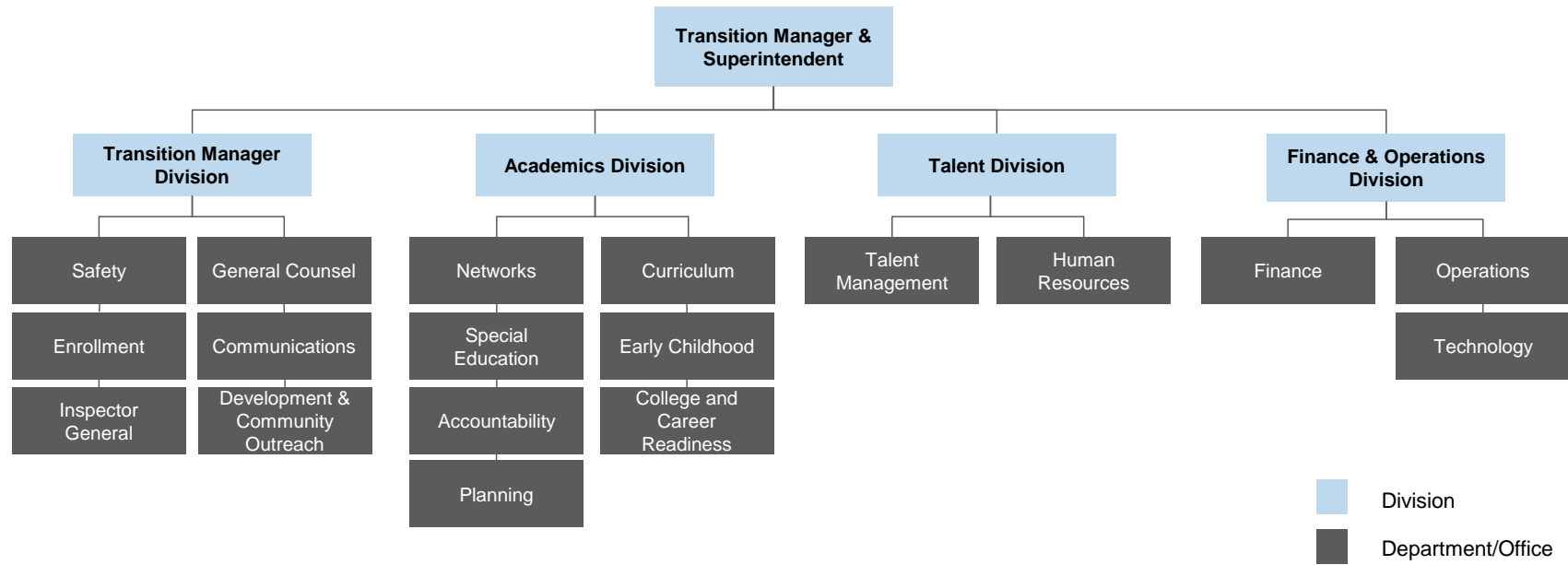
We will also continue to push forward in areas of recent success. Since 2008, the DPS graduation rate has risen more than 19 percent and is just 2.4 percent from the state average. Our graduating seniors have earned more than \$164 million in scholarships and grants for the second consecutive year, \$75 million of which are from academic subsidies alone. Six DPS seniors have earned the prestigious Gates Millennium Scholarship, which provides them with a full-ride to the college or university of their choice and continues to support them through graduate school.

With this fresh start will come tremendous change. The 2016-17 school year will see the end of state control of Detroit Public Schools, the election of a duly elected school board, and a re-negotiation of our collective bargaining agreements. We are optimistic that these changes will lead to improved academic outcomes while retaining financial responsibility.

A generation ago, the Detroit Public Schools were healthy and thriving. We believe that this budget, the first budget of the new Detroit Public Schools Community District, will set our new district back on a path to excellence.

Sincerely,
Judge Steven Rhodes
Transition Manager

II. ORGANIZATIONAL CHART



DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT



III. MAJOR PLANNING ASSUMPTIONS

District Budget Priorities

The FY 2017 (the 2016-17 school year) budget is based on five key priorities:

| Priority | Why is this important? | How is this reflected in the budget? |
|---------------------------------------|--|---|
| Meet financial obligations | By paying money owed to employees, vendors, and others, the District can regain the public's trust and attract and retain the best people to work in and support schools. | Many legacy obligations will be satisfied with State-provided funding. The FY 2017 DPSCD budget does not include debt payments. It is focused on using current year revenues to pay current year obligations on a timely basis without borrowing. |
| Balance the budget in a realistic way | A realistic balanced budget will set the District on a fiscally responsible path and allow the District to continue to meet financial obligations in the future. | Revenues in FY 2017 are projected to equal expenditures based on a set of reasonable assumptions. |
| Support academic innovation | Business as usual at the District won't improve student achievement ; we will work in innovative ways to educate students. | A portion of State-provided transition funds will be dedicated to the most innovative academic programs proposed by our educators. |
| Improve student safety | Students have the right to learn and learn best in a safe and secure environment . | A portion of State-provided transition funds will be invested in additional security personnel, technology, and capital needs. |
| Improve facilities | Many buildings are in need of repair. | A portion of State-provided transition funds will be invested in the most urgent building maintenance needs. |

Facility and Program Plans

The District will not close any school facilities in FY 2017. We believe that a duly elected school board should be responsible for any school closure decisions.

Student Enrollment Projections (FTE):

In recent years, the District has devoted significant time and energy towards student recruitment and retention, and the District's enrollment decline has begun to stabilize. For FY 2017, this budget assumes a 1.8% decline in enrollment from the current year (FY 2016). This decline is in line with recent years and would lead to a District membership (for State funding purposes) of 41,626 for general membership and 3,885 for special education students for a total of 45,511 students in FY 2017.

REVENUES

The FY 2017 General Fund budget reflects total budgeted revenues of \$638.4 million. The District's anticipated revenues can be broken down by their source:

- \$445.8 million from the State of Michigan (includes Foundation Allowance of \$7,552 per student, which is a \$118 increase from FY 2016)
- \$141.8 million in federal funds
- \$50.8 million in local revenues
 - Assumes that no property taxes will be levied

Other Sources:**Sale of Capital Assets**

DPSCD anticipates receiving \$6.0 million for the sale of capital assets.

Food Service Transfer

The transfer from Fund 25 to Fund 11 is expected to be \$2.3 million. The amount of these transfers has been relatively consistent at DPS over recent years.

Transfer from Other School Districts

Due to recent legislation, Detroit Public Schools will receive \$150.0 million in transition funds from the State. \$125.0 million of these funds will remain with Detroit Public Schools to pay legacy DPS obligations, such as 26-pay for teachers, June 2016 payroll, and vendor liabilities. \$25.0 million will be transferred to the Detroit Public Schools Community District for investment in academic programs, safety enhancements, and facilities maintenance. \$7.7 million of those funds will be expended during FY 2017 and are included in the Expenditures section of the budget. The remaining \$17.3 million – which appears as the Fund Balance Designated for Future Investments in the Detroit Public Schools Community District's budget – will be reserved for continued investment in subsequent years.

EXPENDITURES

The FY 2017 proposed budget reflects a 12% decline in total expenditure from the DPS FY 2016 budget, with most of that decline due to legislation separating the District from the debt. Excluding the reduction in debt, total expenditure is down 2% from FY 2016 and 0.5% from FY 2015. Spending on instruction and pupil services is up slightly from FY 2015 (and down slightly from FY 2016) while spending on the central office (“General Administration” and “Business Office”) is down \$10 million from FY 2015, reflecting the Central Office Transformation which took effect in January 2016.

Personnel Costs

Since FY 2015, spending on personnel costs has declined, largely as a result of the FY 2016 Central Office Transformation and due to adjustments in school staffing because of declining enrollment.

The FY 2017 General Fund Budget assumes a wage and compensation structure for all employee groups and non-union personnel that includes:

- **Salary & Wage Levels:** The budget maintains current salary levels for all employees. The budget will have to be modified to accommodate any salary or benefit increases for union personnel due to pending collective bargaining negotiations.
- **Health/Dental/Life/Vision (HDLV) Insurance:** The budget assumes a 20% increase in health care costs mid-way through FY 2017, leading to a net increase of 10% for the year. The District is actively considering how to best manage health care costs for FY 2017 and beyond.
- **State of Michigan Employer Pension:** The budget assumes a pension rate of 25.15% (down slightly from the FY 2016 rate of 25.78%) and a UAAL rate of 11.41% (up slightly from the FY 2016 rate of 10.53%).

Teacher Staffing Assumptions

Each school’s general fund core teacher staffing allocation is based on its projected enrollment and the District’s instructional staffing assumptions.

During FY 2017, teachers will be staffed based on the following targeted class sizes, which are consistent with those at DPS in FY 2016:

| | FY 2016 | FY 2017 | FY 2017 |
|--------------|-------------------|-------------------|--------------|
| Grade | Class Size | Class Size | Preps |
| K-3 | 25 | 25 | 4 |
| 4-5 | 33 | 33 | 4 |
| 6-8 | 38 | 38 | 4 |
| 9-12 | 38 | 38 | 5 |

The staffing was based on the ratios above and took into account the actual filled positions at each school in FY 2016. The class size assumptions have not changed for the 2016-17 school year. Schools submitted appeals for 45 additional teachers and over 95 percent (43 teachers) were granted in order to maintain and improve academic programming at those schools. The District will actively work with schools to maintain the smallest class size possible.

Debt Service

The District will not have any Debt Service for FY 2017 due to the transition from Detroit Public Schools to Detroit Public Schools Community District.

BALANCED BUDGET

Excluding revenues and expenditures related to state transition funds, the District’s budget is balanced, whether considering one-time occurrences, recurring revenues and expenditures, or both in combination. There is a one-time \$6.0 million inflow from asset sales in FY 2017; there is also a corresponding \$6.1 million outflow related to severance pay from employee severance plans offered in prior years (which will not recur beyond FY 2017). Overall revenues plus other sources of funding are equal to \$646.6 million, and expenditures are equal to \$646.6 million.

| | Amount (\$ millions) |
|--|-------------------------|
| <u>Regular Operating Budget (Excluding State Transition Funds)</u> | |
| Revenue & Other Sources | 646.6 |
| <u>Expenditures Before State Transition Funds</u> | 646.6 |
| Excess / (Deficiency) | 0.0 |

In total, the State allocated \$150.0 million in transition funds for the change from Detroit Public Schools to Detroit Public Schools Community District. \$125.0 million of those funds will remain with Detroit Public Schools and be used to pay the legacy DPS obligations (26-pay for teachers, June payroll, vendor liabilities, etc.).

The remaining \$25.0 million in state transition funds will be transferred to Detroit Public Schools Community District from Detroit Public Schools. These funds appear as an inflow in the proposed general fund budget shown in Section IV as “Payments from Other School Districts” under “Other Financial Sources (Uses).” The budget also includes \$7.7 million in expenditures funded by these state transition funds. The rest of the \$25.0 million in state transition funds (\$17.3 million) will be spent after the close of the FY 2017 school year. This amount shows up as the “Fund Balance Designated for Future Investments” in the proposed general fund budget in Section IV.

| | Amount (\$ millions) |
|--|-------------------------|
| <u>State Transition Funds</u> | |
| Transfer from Detroit Public Schools | 25.0 |
| <u>Investments from State Transition Funds in FY 2017*</u> | 7.7 |
| State Transition Funds to Be Invested After FY 2017 | 17.3 |

* Includes \$1.9 million in academic programs, \$0.8 million in student safety, and \$5.0 million in facilities improvements

DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT



IV. PROPOSED BUDGETS FOR DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT

**DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT
GENERAL FUND
PROPOSED BUDGET
YEAR ENDING JUNE 30, 2017**

| | <u>FY 2017 - Proposed</u> |
|--|-----------------------------|
| Revenue: | |
| Local sources | |
| Special education millage | \$ 38,826,853 |
| Property Taxes | - |
| Other | <u>11,925,615</u> |
| Total local sources | 50,752,468 |
| State sources | 445,820,225 |
| Federal sources | <u>141,820,618</u> |
| Total Revenue | <u>638,393,311</u> |
| Expenditures: | |
| Instruction | <u>332,136,275</u> |
| Support services | |
| Pupil services | 61,098,044 |
| Instructional staff support | 55,406,594 |
| General administration | 3,177,970 |
| School administration | 38,695,133 |
| Business office | 9,992,727 |
| Operations & maintenance | 84,826,740 |
| Transportation | 35,049,312 |
| Central support service | 28,356,986 |
| Other support service | <u>769,593</u> |
| Total support services | <u>317,373,099</u> |
| Community service | <u>4,189,662</u> |
| Facilities acquisitions and improvement | <u>606,809</u> |
| Debt service | <u>-</u> |
| Total Expenditures | <u>654,305,845</u> |
| Other Financial Sources (Uses) | |
| Sources | |
| Transfers from other school districts | 25,000,000 |
| Proceeds from sale of capital assets | 6,000,000 |
| Transfers In | <u>2,256,058</u> |
| Total Sources | <u>33,256,058</u> |
| Total Other Financial Sources (Uses) | <u>33,256,058</u> |
| Excess (deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses | <u>17,343,524</u> |
| Beginning Fund Balance | - |
| Fund Balance Designated for Future Investments | 17,343,524 |
| Unrestricted Fund Balance | - |
| Ending Fund Balance | <u>\$ 17,343,524</u> |

**Detroit Public Schools Community District vs. DPS Prior Years
(For Comparison Purposes)**

**DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT
GENERAL FUND
PROPOSED BUDGET
YEAR ENDING JUNE 30, 2017**

| | <u>FY 2015 - Actual</u> | <u>FY 2016 - 2nd Amendment</u> | <u>FY 2017 - Proposed</u> | <u>FY 2017 - Proposed Increase (Decrease) Over FY 2015 - Actual</u> | <u>FY 2017 - Proposed Increase (Decrease) Over FY 2016 - Amended</u> |
|--|-------------------------|------------------------------------|---------------------------|---|--|
| Revenue: | | | | | |
| Local sources | | | | | |
| Special education millage | \$ 30,085,680 | \$ 31,777,479 | \$ 38,826,853 | \$ 8,741,173 | \$ 7,049,374 |
| Property Taxes | 65,981,648 | 68,909,286 | - | (65,981,648) | (68,909,286) |
| Other | 9,255,286 | 13,934,450 | 11,925,615 | 2,670,329 | (2,008,835) |
| Total local sources | 105,322,614 | 114,621,215 | 50,752,468 | (54,570,146) | (63,868,747) |
| State sources | 385,812,644 | 429,660,056 | 445,820,225 | 60,007,581 | 16,160,169 |
| Federal sources | 169,259,155 | 160,941,659 | 141,820,618 | (27,438,537) | (19,121,041) |
| Total Revenue | 660,394,413 | 705,222,930 | 638,393,311 | (22,001,102) | (66,829,619) |
| Expenditures: | | | | | |
| Instruction | 335,669,369 | 339,505,433 | 332,136,275 | (3,533,094) | (7,369,158) |
| Support services | | | | | |
| Pupil services | 52,375,223 | 57,706,830 | 61,098,044 | 8,722,821 | 3,391,214 |
| Instructional staff support | 62,830,196 | 71,701,361 | 55,406,594 | (7,423,602) | (16,294,767) |
| General administration | 7,583,101 | 4,464,900 | 3,177,970 | (4,405,131) | (1,286,930) |
| School administration | 35,378,176 | 37,594,136 | 38,695,133 | 3,316,957 | 1,100,997 |
| Business office | 16,031,649 | 8,994,005 | 9,992,727 | (6,038,922) | 998,722 |
| Operations & maintenance | 79,307,554 | 74,835,192 | 84,826,740 | 5,519,186 | 9,991,548 |
| Transportation | 32,840,089 | 37,194,522 | 35,049,312 | 2,209,223 | (2,145,210) |
| Central support service | 29,780,386 | 29,522,183 | 28,356,986 | (1,423,400) | (1,165,197) |
| Other support service | 2,023,495 | 885,007 | 769,593 | (1,253,902) | (115,414) |
| Total support services | 318,149,869 | 322,898,136 | 317,373,099 | (776,770) | (5,525,037) |
| Community service | 3,301,079 | 4,596,346 | 4,189,662 | 888,583 | (406,684) |
| Facilities acquisitions and improvement | 14,721 | 577,896 | 606,809 | 592,088 | 28,913 |
| Debt service | 56,895,055 | 63,849,494 | - | (56,895,055) | (63,849,494) |
| Total Expenditures | 714,030,093 | 731,427,305 | 654,305,845 | (59,724,248) | (77,121,460) |
| Other Financial Sources (Uses) | | | | | |
| Sources | | | | | |
| Transfers from other school districts | - | - | 25,000,000 | 25,000,000 | 25,000,000 |
| Proceeds from sale of capital assets | 5,401,970 | 3,046,000 | 6,000,000 | 598,030 | 2,954,000 |
| Transfers In | 1,762,100 | 2,256,058 | 2,256,058 | 493,958 | - |
| Total Sources | 7,164,070 | 5,302,058 | 33,256,058 | 26,091,988 | 27,954,000 |
| Total Other Financial Sources (Uses) | 7,164,070 | 5,302,058 | 33,256,058 | 26,091,988 | 27,954,000 |
| Excess (deficiency) of Revenue and Other Sources Over (Under) Expenditures and Other Uses | (46,471,610) | (20,902,317) | 17,343,524 | 63,815,134 | 38,245,841 |
| Beginning Fund Balance | (169,460,307) | (215,931,917) | - | | |
| Fund Balance Designated for Future Investments | - | - | 17,343,524 | | |
| Unrestricted Fund Balance | - | - | - | | |
| Ending Fund Balance | \$ (215,931,917) | \$ (236,834,234) | \$ 17,343,524 | | |

DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT



V. PROPOSED BUDGETS FOR DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT OTHER GOVERNMENTAL FUNDS

Food Service

The District records food service economic transactions in Fund 25, which is a special revenue fund that is not a part of the General Fund and as such is presented separately. This Fund continues to maintain a positive fund balance while providing high quality food service to our students. Following is the FY 2017 budget for the District's food service operations:

**DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT
FOOD SERVICE FUND
PROPOSED BUDGET
YEAR ENDING JUNE 30, 2017**

| | FY 2017 - Proposed |
|---|-------------------------------|
| Revenue: | |
| Local sources | |
| Other | \$ 980,500 |
| Total local sources | 980,500 |
| State sources | 1,283,000 |
| Federal sources | 47,340,473 |
| | 49,603,973 |
| Expenditures: | |
| Support services | |
| Personnel | 15,190,201 |
| Purchased Services | 2,644,775 |
| Supplies | 28,412,939 |
| Equipment & Capital | 1,100,000 |
| | 47,347,915 |
| | 47,347,915 |
| Other Financial Sources (Uses) | |
| Sources | |
| Transfers from Other School Districts | 6,146,057 |
| Total Sources | 6,146,057 |
| Uses | |
| Transfers Out | (2,256,058) |
| Total Uses | (2,256,058) |
| Total Other Financial Sources (Uses) | 3,889,999 |
| (Under) Expenditures | 6,146,057 |
| Beginning Fund Balance | - |
| Ending Fund Balance | \$ 6,146,057 |

**Detroit Public Schools Community District vs. DPS Prior Years
(For Comparison Purposes)**

**DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT
FOOD SERVICE FUND
PROPOSED BUDGET
YEAR ENDING JUNE 30, 2017**

| | FY 2015 - Actual | FY 2016 - 2nd Amendment | FY 2017 - Proposed | FY 2017 - Proposed Increase (Decrease) Over FY 2015 - Actual | FY 2017 - Proposed Increase (Decrease) Over FY 2016 - Amended |
|---|---------------------|----------------------------|-----------------------|--|---|
| Revenue: | | | | | |
| Local sources | | | | | |
| Other | \$ 906,280 | \$ - | \$ 980,500 | \$ 74,220 | \$ 980,500 |
| Total local sources | 906,280 | - | 980,500 | 74,220 | 980,500 |
| State sources | 1,653,364 | 2,800,000 | 1,283,000 | (370,364) | (1,517,000) |
| Federal sources | 43,044,669 | 43,570,897 | 47,340,473 | 4,295,804 | 3,769,576 |
| Total Revenue | 45,604,313 | 46,370,897 | 49,603,973 | 3,999,660 | 3,233,076 |
| Expenditures: | | | | | |
| Support services | | | | | |
| Personnel | 13,529,815 | 15,674,477 | 15,190,201 | 1,660,386 | (484,276) |
| Purchased Services | 2,914,962 | 3,865,065 | 2,644,775 | (270,187) | (1,220,290) |
| Supplies | 24,424,489 | 23,356,646 | 28,412,939 | 3,988,450 | 5,056,293 |
| Equipment & Capital | 1,798,665 | 1,218,651 | 1,100,000 | (698,665) | (118,651) |
| Total support services | 42,667,931 | 44,114,839 | 47,347,915 | 4,679,984 | 3,233,076 |
| Total Expenditures | 42,667,931 | 44,114,839 | 47,347,915 | 4,679,984 | 3,233,076 |
| Other Financial Sources (Uses) | | | | | |
| Sources | | | | | |
| Transfers from Other School Districts | - | - | 6,146,057 | 6,146,057 | 6,146,057 |
| Total Sources | - | - | 6,146,057 | 6,146,057 | 6,146,057 |
| Uses | | | | | |
| Transfers Out | (1,762,100) | (2,256,058) | (2,256,058) | 493,958 | - |
| Total Uses | (1,762,100) | (2,256,058) | (2,256,058) | 493,958 | - |
| Total Other Financial Sources (Uses) | (1,762,100) | (2,256,058) | 3,889,999 | 5,652,099 | 6,146,057 |
| (Under) Expenditures | 1,174,282 | - | 6,146,057 | 4,971,775 | 6,146,057 |
| Beginning Fund Balance | 4,971,775 | 6,146,057 | - | | |
| Ending Fund Balance | \$ 6,146,057 | \$ 6,146,057 | \$ 6,146,057 | | |