

DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT



ADOPTED OPERATING BUDGET YEAR-ENDING JUNE 30, 2017

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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 adopted 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.

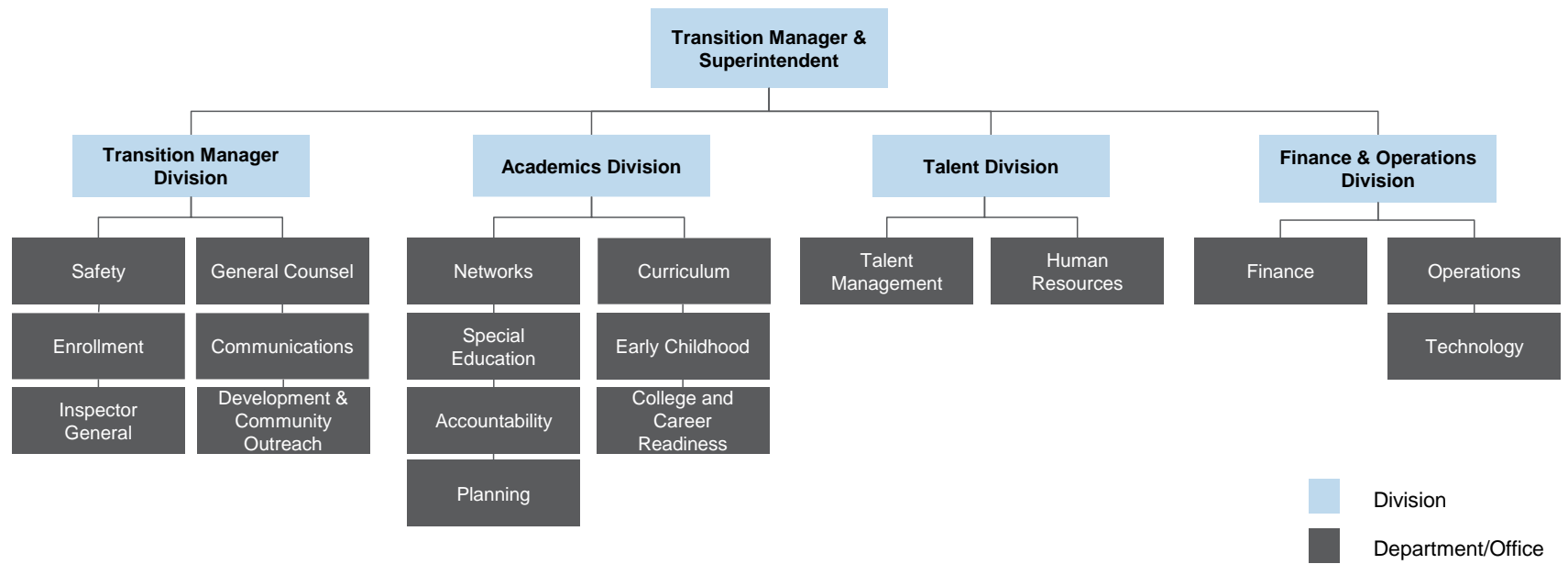
We will also continue to push forward in areas of recent success. Since 2008, the DPS graduation rate has risen more than 19 percent and is just 2.4 percent from the state average. Our graduating seniors have earned more than \$164 million in scholarships and grants for the second consecutive year, \$75 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 adopted 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

PROPOSED

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 adopted 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 adopted 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. ADOPTED BUDGETS FOR DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT

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

	<u>FY 2017 - Proposed</u>
Revenue:	
Local sources	
Special education millage	\$ 38,826,853
Property Taxes	-
Other	11,925,615
Total local sources	<u>50,752,468</u>
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	2,256,058
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
GENERAL FUND
ADOPTED 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
Uses					
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. ADOPTED 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
ADOPTED 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
Total Revenue	49,603,973
Expenditures:	
Support services	
Personnel	15,190,201
Purchased Services	2,644,775
Supplies	28,412,939
Equipment & Capital	1,100,000
Total support services	47,347,915
Total Expenditures	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
Excess (deficiency) of Revenue Over (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
ADOPTED 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					
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	-	-	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
Excess (deficiency) of Revenue Over (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		