



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

ROBERT J. KLEINE  
STATE TREASURER

**CONSENT AGREEMENT**

**Between the Detroit Public School District**

**And**

**The Financial Management Review Team**

**Appointed by the Governor on October 7, 2008**

**Pursuant to Public Act 72 of 1990**

WHEREAS, pursuant to Section 33(1) of Public Act 72 of 1990, the Local Government Fiscal Responsibility Act, hereinafter "the Act," a preliminary review was commenced by the Michigan Department of Education to determine whether a serious financial problem existed within the Detroit Public School District;

WHEREAS, the State Superintendent of Public Instruction, in conducting a thorough and meticulous preliminary review, which was completed on August 27, 2008, found or confirmed a number of conditions which were indicative of a serious financial problem in the School District, among which were the following;

- On August 26, 2008, the Michigan Department of Education designated the School District as "high risk" resulting from "the ongoing and serious nature of the financial conditions and audit findings surrounding the Detroit Public Schools Title I, Part A, program. Such a designation imposes additional reporting requirements upon the designee and requires the Michigan Department of Education to work in close partnership with the Risk Management

Services Division of the U.S. Department of Education to ensure that federal requirements are met by the designee.”

- The School District’s 2007 single audit included 120 findings, 46 of which related to the financial statements and 74 of which related to compliance with federal program provisions.
- School District officials had transferred excessive funds from the School District’s food service fund to its general fund.
- School District officials had not finalized a corrective action plan in respect to the School District’s 2007 financial audit.
- The Schedule of Expenditures of Federal Awards prepared by School District officials was missing a Title I grant, overstated cash receipts for another grant, and did not properly total.
- On August 14, 2008, the Board of the School District adopted and submitted to the Michigan Department of Education a deficit elimination plan which the Department did not accept due to a lack of specificity and a lack of integrity of the data. At the time, School District officials were projecting a deficit of \$112.8 million for the fiscal year ending June 30, 2008.
- The School District continued to experience significant cash flow shortages, necessitating advances on State school aid payments for the months of July and August, 2008. Specifically, on June 24, 2008, School District officials requested the advance release of \$103 million “[t]o assure [the District’s] ability to continue to pay employees and vendors.” In the absence of the requested school aid advances, School District officials estimated shortfalls in the ability to meet payroll obligations of \$56 million to \$66 million for July and August 2008.
- As further evidence of its ongoing cash flow shortages, the School District continued to borrow on a short-term and long-term basis. For example, the School District borrowed \$139

million during 2007 from the Michigan Municipal Bond Authority's State Aid Note pool which amount matured on August 20, 2008. School District officials anticipated borrowing (and subsequently did borrow) approximately \$143 million during 2008 from the Bond Authority's State Aid Note pool.

WHEREAS, pursuant to Section 33(2) of the Act, the State Superintendent of Public Instruction on August 27, 2008, reported to the Governor the conclusion that, based upon the preliminary review, a serious financial problem existed within the School District; And

WHEREAS, pursuant to Section 34(1) of the Act, the Governor appointed a financial review team on October 7, 2008, to conduct a detailed review of the financial condition of the School District; And

WHEREAS, the Review Team confirmed that a serious financial problem existed within the School District after meeting with School District officials on October 17, 2008, and after reviewing relevant information concerning the financial condition of the School District. The Review Team found the following based upon information provided by School District officials, annual financial audit reports of the School District, or both:

- School District officials have demonstrated an ongoing inability to implement provisions of prior agreements, such as deficit elimination plans, that School District officials had assured State officials that they would address budgetary concerns through, among other things, the closure of underutilized school facilities, reductions in workforce, and other reductions in expenditures submitted to the Department as part of its deficit elimination plan.
- The School District consistently has operated in a deficit condition for a number of years. General fund expenditures of the School District exceeded general fund revenues during seven of the eight fiscal years examined. The operating deficits ranged from a low of \$10,631,337

in 2000 to a high of \$122,167,428 in 2003; the estimated operating deficit for the 2008 fiscal year is \$112 million. In many of the years during this period, general fund expenditures did not decrease or did not decrease commensurately in proportion to the decrease in general fund revenues. For example, general fund revenues decreased by \$17,222,085 in 2001, compared to the prior year, but general fund expenditures increased by \$10,193,257. Similarly, for the 2003 fiscal year, general fund revenues decreased by \$19,006,122, compared to the prior year, while general fund expenditures increased by \$43,837,180.

- The pattern of deficit spending by the School District was facilitated by a succession of short-term notes. However, during the 2005 fiscal year, School District officials refinanced outstanding cash flow notes by issuing \$210 million in bonds payable over a 15-year period. The effect of this refinancing was to convert what had been short-term debt into long-term debt.

WHEREAS, School District officials have expressed a desire to enter into a Consent Agreement which demonstrates that the School District is capable of, and will, adequately address its serious financial problems, thereby enabling the Review Team to report to the Governor and State Superintendent of Public Instruction that a Consent Agreement containing a plan to resolve the serious financial problems of the School District has been entered into pursuant to Section 34(2)(c) of the Act.

NOW, THEREFORE, in consideration of the Review Team entering into this Consent Agreement, the School District, through its General Superintendent and Board of Education, hereby agrees and promises to undertake the following remedial actions:

## **I. Submission of 2008 Financial Audit Report and Plan to Address Financial Audit Report Deficiencies**

The School District, as previously agreed, shall submit to the Michigan Department of Education by not later than December 10, 2008, the financial audit report of the School District for its fiscal year ending June 30, 2008, which for purposes of Public Act 94 of 1979, the State School Aid Act of 1979, is due by November 15, 2008. By January 15, 2009, the School District shall submit to the Michigan Department of Education a detailed plan for addressing any deficiencies, material weaknesses, or reportable conditions identified in its financial audit report for the School District's fiscal year ending June 30, 2008, including any deficiencies, material weaknesses, or reportable conditions identified in any prior financial audit reports which remain unresolved. The detailed plan shall specify the date by which each deficiency, material weaknesses, or reportable condition identified is to be addressed.

## **II. Deficit Elimination Plan**

Within 28 days of the date that this Consent Agreement is executed, the School District shall submit to the Michigan Department of Education a detailed deficit elimination plan that contains to the satisfaction of the Department specific and realistic expenditure reductions in an amount sufficient to address any current operating deficit in any fund maintained by the School District by not later than June 30, 2010, as evidenced by a budget adopted for the fiscal year commencing July 1, 2009, and to address any accumulated deficit in any fund maintained by the School District by not later than June 30, 2011. The deficit elimination plan shall set forth with particularity the details of any and all actions that the School District determines to be necessary to comply with the requirements of this paragraph, including but not limited to the closure of School District facilities, reductions in positions, wages, employee retirement systems, other fringe benefits, debt retirement, reductions in travel, overtime, utility expenses, purchasing, other operating expenditures,

or any other actions that the School District determines to be necessary. The deficit elimination plan shall specify the date by which each of the foregoing actions shall be completed, including all significant actions that shall be completed prior to June 30, 2009, and shall be accompanied by a resolution adopted by the Board of Education of the School District which authorizes the General Superintendent of the School District to take any and all action necessary to implement the deficit elimination plan without further, or subsequent, approval by the Board of Education of the School District. The deficit elimination plan shall not address a deficit in any fund maintained by the School District by means of an interfund operating transfer. The School District is prohibited from interfund borrowing for more than 90 calendar days at any one time, or beyond the end of a fiscal year, whichever first occurs, subject to provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.

### **III. Plan to Address High Risk Designation**

By November 14, 2008, the School District shall submit to the Michigan Department of Education a corrective action plan that addresses to the satisfaction of the Department those factors which resulted in the School District being designated a high risk school district.

### **IV. Accounts Payable Listing**

By December 1, 2008, for the period ending October 31, 2008, and by the first day of each subsequent month, the School District shall submit to the Michigan Department of Education a detailed listing of all accounts payable, in the amount of \$10,000 or more, which are more than 30 days beyond each respective due date. For each accounts payable, the listing shall specify the date upon which payment originally was due, the amount of the payment due including any accrued interest, the name of the person, business, unit of government, or other entity to which payment is due, a proposed schedule for payment, and the name of the fund from which payment will be made.

## **V. Facilities List**

By December 15, 2008, the School District shall provide to the Michigan Department of Education a detailed list of all buildings and facilities owned or leased by the School District. The detailed list shall include for each building or facility the location, square footage, percentage of occupancy and, if leased, the annual cost, the lease-termination date, the price per square foot, the cancellation clause, whether the lease is on a gross or net basis and, if on a net basis, the operating costs.

## **VI. Plan to Address Council of the Great Cities Schools Report Deficiencies**

By January 15, 2009, the School District shall submit to the Michigan Department of Education a report indicating the status, expected completion date, and project plan of its implementation of the recommendations contained in the report of the Council of the Great Cities Schools.

## **VII. Ongoing Requirements**

During the period that this Consent Agreement is in effect, or until an earlier date specified in writing by the Michigan Department of Education, all of the following requirements shall apply:

### **Budget Adoption**

1. The School District shall adopt and adhere to a budget for each fiscal year, including the fiscal year of the School District that commences July 1, 2009, and the adopted budget shall be the control document against which compliance by the School District with statutory requirements and the relevant provisions of this Consent Agreement shall be measured. The budget adopted for each fiscal year shall comply with the following requirements:
  - a. Each budget proposed by the School District shall be prepared and presented, and each appropriations act proposed by the School District shall be adopted, in accordance with the provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act and

applicable provisions of Public Act 94 of 1979, the State School Aid Act of 1979, and relevant provisions of this Consent Agreement.

- b. A budget shall include quarterly allotments, excluding capital items, of authorized spending in which no one quarterly allotment in total shall generally exceed 25 percent of the total budgeted expenditures for the fiscal year of the School District, taking into consideration historical or seasonal expenditure patterns.
- c. Beginning with the budget adopted for the 2009 fiscal year of the School District, the annual budget for each fiscal year, as adopted by the School District, shall be transmitted by the School District to the Michigan Department of Education at least 30 calendar days in advance of the beginning of the fiscal year of the School District, and any amendments to that budget shall be transmitted to the Michigan Department of Education within 10 calendar days of adoption by the School District.
- d. If there is a shortfall in anticipated revenue, or if unusual or extraordinary expenditures arise during a fiscal year, the School District shall reduce budgeted expenditures in the adopted annual budget on a timely basis pursuant to Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, and shall adjust the quarterly allotments as may be required so that at fiscal year end, the School District will have operated within a balanced budget. As used in this paragraph, "a timely basis" means that the budgeted expenditures will be reduced, or budgeted revenues will be increased, or both, so as to preclude an expenditure being made for which adequate revenues are unavailable or are projected to be unavailable.
- e. The School District has the authority and the responsibility to amend an adopted budget by transferring funds between and among accounts, and between and among fiscal year

quarters, to the extent permitted by law, but subject to the provisions of subdivisions (a), (b), and (d) of this paragraph.

- f. The School District shall set forth in its budget each year all significant assumptions as to revenue and expenditures upon which the budget is predicated.

### **Operating Deficits**

2. The School District shall not end a fiscal year with an operating deficit in any fund unless both of the following conditions occur:
  - (a) The fund in which the operating deficit occurred had a sufficient beginning balance to offset the deficit consistent with the provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.
  - (b) The financial statements of the School District indicating such a beginning balance have been found to fairly represent the financial position of the School District by independent auditors in a qualified or unqualified opinion.

### **Cash Flow Reports**

3. On a monthly basis, beginning with the 30th day of November 2008, the School District shall report to the Michigan Department of Education, in a manner acceptable to the Michigan Department of Education, the cash flow for the previous month and project the anticipated cash flow for the ensuing month and for each month remaining in the fiscal year. Should an interfund cash borrowing occur, it shall be noted in this report. The School District shall ensure that it has sufficient cash to meet its obligations as they become due.

### **Service Consolidation**

4. By January, 2009, the School District shall pursue negotiations with the Regional Education Service Agency of Wayne County concerning the consolidation of any instructional, budget-

ary, human resource, information technology, and other support services, and shall investigate other cost containment measures. The School District shall file with the Michigan Department of Education a report by February 15, 2009, and quarterly thereafter, indicating the progress of such negotiations.

### **Collective Bargaining Agreements**

5. Within 30 days of the date that this Consent Agreement is executed, the School District shall provide to the Michigan Department of Education a report indicating the status of all collective bargaining agreements to which the School District is a party. The School District shall not sign, enter into, or execute a collective bargaining agreement, nor sign, enter into, or execute any instrument which extends the terms or conditions of an existing collective bargaining agreement if the collective bargaining agreement or instrument is inconsistent with the deficit elimination plan which this Consent Agreement requires the School District to submit to the Michigan Department of Education.

### **Pending Litigation Report**

6. On a quarterly basis beginning with the 15th day of December 2008, the legal department of the School District shall submit to the Michigan Department of Education a detailed listing of all pending lawsuits or other legal actions to which the School District or the Board of Education is a party. For each pending lawsuit or other legal action, the listing shall specify the name of the plaintiff or plaintiffs, the name of the defendant or defendants, the name of the court and judge currently having jurisdiction of the matter, the name of legal counsel representing the School District if other than the legal department of the School District, the cause of action, the dollar amount at issue, the length of time during which the lawsuit or other legal action has been pending, an estimate as to any budgetary impact upon the School District

should the School District not prevail in the lawsuit or other legal action, and the applicability of any liability insurance maintained by the School District.

**Absence of Consent Agreement; Consequence of**

7. In the absence of this Consent Agreement, the Review Team would have concluded in its report to the Governor and State Superintendent of Public Instruction required pursuant to Section 34(3) of the Act that a financial emergency existed within the School District because no satisfactory plan to resolve a serious financial problem existed. Therefore, the failure of the School District to comply in any respect with this Consent Agreement may be considered by the Superintendent of Public Instruction sufficient cause for recommending the immediate appointment of an emergency financial manager pursuant to Section 38(1) of the Act, the provisions of Sections 35 through 37 of the Act to the contrary notwithstanding.

**Obligation of School District to Comply with Consent Agreement**

8. The School District, through its officers and Board of Education, is bound by, and shall adhere to, this Consent Agreement. Any action by the School District to contest, through legal proceedings or otherwise, the constitutionality, validity, or enforceability of the Act, this Consent Agreement, or the powers or jurisdiction of the Review Team may be considered sufficient cause by the Superintendent of Public Instruction for recommending the immediate appointment of an emergency financial manager pursuant to Section 38(1) of the Act, the provisions Sections 35 through 37 of the Act to the contrary notwithstanding.

**Obligation not Discharged by Contingencies**

9. The obligations of the School District as expressed and agreed to by the School District under this Consent Agreement are not subject to release or discharge due to any contingencies, including but not limited to, clerical errors, computer failures, late mailings, or the failure to

comply with reporting due dates or other scheduled due dates due to adverse weather, acts of God, acts of third parties, or compliance with court orders.

### **Cooperation with Michigan Department of Education**

10. The School District shall cooperate fully with the Michigan Department of Education, with any independent certified public accounting firm hired to perform an audit of the School District, and with any consultant that may be retained to assist the School District in any matter covered by this Consent Agreement.

### **Debt Obligations**

11. The School District shall not issue, execute, or enter into any debt obligation, including notes, bonds, certificates of participation, or other evidence of indebtedness unless it first receives the approval of the Michigan Department of Treasury.

### **Due Dates**

12 A provision of this Consent Agreement which requires the School District to submit to the Michigan Department of Education a report, listing, or other document by a specific due date shall not be deemed complied with unless the report, listing, or other document is received by the Michigan Department of Education by the due date specified, and the action called for is implemented by the date specified. If the due date for a report, listing, or other document falls on a weekend or legal holiday, then the report, listing, or other document shall be due on the first day thereafter which is not a weekend or legal holiday.

### **Waiver of Provisions**

13. The Superintendent of Public Instruction may waive a provision of this Consent Agreement if, in his sole discretion, the Superintendent of Public Instruction concludes that the School District has demonstrated good cause shown for the waiver. However, the lack of a specific

action by the Superintendent of Public Instruction, shall not be construed as a waiver of a provision of this Consent Agreement.

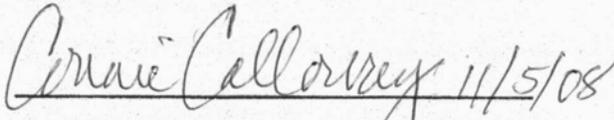
### **Duration of Consent Agreement**

14. This Consent Agreement shall remain in effect until the end of the fiscal year of the School District in which all of the following conditions have been satisfied:

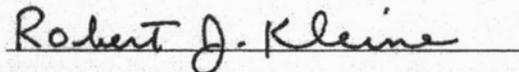
- (a) The financial statements indicate, on the basis of generally accepted accounting principles, that no fund maintained by the School District is in a deficit condition.
- (b) The School District has eliminated any structural imbalance of recurring operating expenditures in excess of recurring operating revenues.
- (c) The State Superintendent of Public Instruction certifies that no condition exists within the School District, and that no action has been taken, or is being contemplated, by the School District which would initiate, or cause the initiation of, a preliminary review under Section 33(1) of the Act.

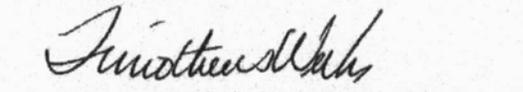
IN WITNESS WHEREOF, the parties, by their designated representatives, have signed and executed this Consent Agreement on this 5 day of ~~October~~ <sup>November</sup>, 2008.

**On behalf of the Detroit School District:**

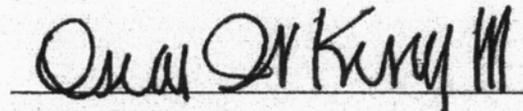
  
\_\_\_\_\_  
Connie Calloway, General Superintendent

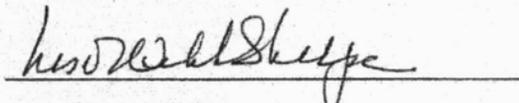
**By the Financial Review Team:**

  
\_\_\_\_\_  
Robert J. Kleine

  
\_\_\_\_\_  
Timotheus Weeks

\_\_\_\_\_  
Michael P. Flanagan

  
\_\_\_\_\_  
Oscar W. King, III

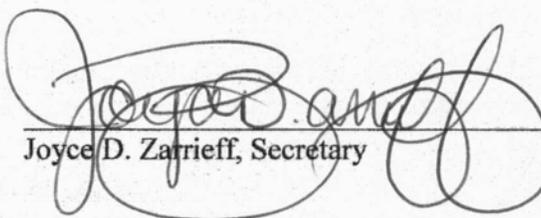
  
\_\_\_\_\_  
Lisa Webb Sharpe

**NOTE:** Superintendent Flanagan has chosen to abstain from participation until he receives the final Review Team report.

**Certification**

I, Joyce D. Zarrieff, Secretary of the Board of Education of the Detroit Public School District, hereby certify that the foregoing Consent Agreement has been duly authorized by the Board of Education of the Detroit Public School District by resolution adopted at a meeting this \_\_\_th day of November, 2008, and that the resolution still is in effect, a copy of which is attached.

Date of Certification: November 5, 2008

  
Joyce D. Zarrieff, Secretary



**RESOLUTION OF THE DETROIT BOARD OF EDUCATION  
FOR EXECUTION OF CONSENT AGREEMENT BETWEEN THE  
DETROIT PUBLIC SCHOOL DISTRICT AND THE FINANCIAL  
MANAGEMENT REVIEW TEAM APPOINTED BY THE  
GOVERNOR ON OCTOBER 7, 2008 PURSUANT TO PUBLIC  
ACT 72 OF 1990**

**WHEREAS**, the Board of Education of the School District of the City of Detroit (the "Board") is the duly elected governing body of the School District of the City of Detroit (the "District"); and

**WHEREAS**, the Revised School Code, Public Act 451 of 1976, as amended provides that the Board may authorize central purchasing, payroll, employment, allocation of funds for operations, adoption of a budget, and all other prescribed powers and duties; and

**WHEREAS**, the Board has established by-laws and/or policies which authorizes the District to advance the interests of education, ensure quality, governance and preserve public schools within the City of Detroit; and

**WHEREAS**, it is the Board's goal to improve fiscal stability and efficient, transparent financial processes within the District; and

**WHEREAS**, the District is operating under a deficit elimination plan for the 2008-2009 fiscal year; and

**WHEREAS**, on July 8, 2008, the Senate passed a resolution requesting a review of the financial conditions of the Detroit Public Schools by Michigan's Superintendent of Public Instruction in accordance with the Local Governmental Fiscal Responsibility Act, 1990 PA 72, MCL §141.1231 et seq. (the "Act"); and

**WHEREAS**, on September 17, 2008, the District was deemed to be in a serious financial condition by the Superintendent of Public Instruction; and

**WHEREAS**, in accordance with the Act, Governor Jennifer Granholm appointed a Financial Review Team which has concurred that the District has a serious financial problem; and

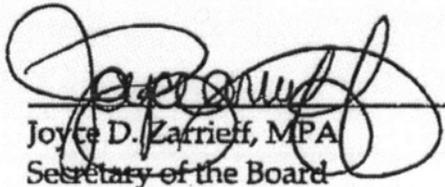
**WHEREAS**, the determination of the District being in a serious financial condition has the potential of triggering the appointment of an emergency financial manager in accordance with the Act; and

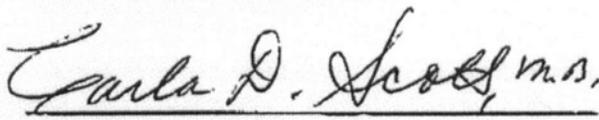
**WHEREAS**, the Financial Review Team has recommended the immediate execution of a Consent Agreement by the Board and the General Superintendent as a resolution to the District's serious financial problem ; and

**IT IS HEREBY RESOLVED**, that the Board shall hereby authorize the immediate adoption of the remedial actions as directed within the October 31, 2008 Consent Agreement and in compliance with all applicable laws; and

**IT IS HEREBY FURTHER RESOLVED**, that all District staff shall immediately adhere to the provisions outlined within this Resolution.

Approved by the Detroit Board of Education this 5 day of November 2008.

  
Joyte D. Zarrieff, MPA  
Secretary of the Board

  
Carla D. Scott, M.D.  
President  
Detroit Board of Education