

# **DETROIT FINANCIAL REVIEW COMMISSION**

## **SCHOOL DISTRICT REGULAR MEETING**

Friday, September 16, 2016  
Following the City Regular Meeting  
(Begins no earlier than 2:00 p.m.)  
Cadillac Place, Suite L-150  
3062 West Grand Boulevard  
Detroit, MI 48202

### **AGENDA**

- I. Call to Order**
- II. Roll Call**
- III. Approval of Proposed Minutes from the August 29, 2016 School District Meeting**
- IV. Executive Director's Report**
- V. Old Business - None**
- VI. New Business**
  - a. Consideration of Annual Certification of the Community District's Compliance with the Michigan Financial Review Commission Act per MCL 141.1636(2) (FRC School District Resolution 2016-13)
  - b. Presentation of the Community District's Budget Review
  - c. Consideration of the Community District's collective bargaining agreement with the Detroit Federation of Teachers per MCL 141.1636(9) (FRC School District Resolution 2016-14)
  - d. Consideration of the Community District's September 2016 contract approval requests per MCL 141.1636(6) (FRC School District Resolution 2016-15)
  - e. Consideration of the Community District's September 2016 out-of-state travel reimbursement requests per MCL 141.1637(q) (FRC School District Resolution 2016-16)
- VII. Public Comment**
- VIII. Next Meeting Date**
  - a. School District Regular Meeting: **(Date will be posted in due course)- at 2:00 p.m. at Cadillac Place, 3062 West Grand Boulevard, Suite L-150, Detroit, MI 48202**
- IX. Adjournment**

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**DETROIT FINANCIAL REVIEW COMMISSION**  
**SCHOOL DISTRICT REGULAR MEETING**

Monday, August 29, 2016  
Following the City Regular Meeting  
(Begins no earlier than 3:30 p.m.)  
Cadillac Place, Suite L-150  
3062 West Grand Boulevard  
Detroit, MI 48202

**MINUTES**

**I. Call to Order**

Chairman Nick A. Khouri called the meeting to order at 3:39 p.m.

**II. Roll Call**

Members Present – 9

Darrell Burks  
Stacy Fox  
Lorron James  
Brenda Jones (non-voting)  
Nick A. Khouri  
Bill Martin  
Alycia Meriweather  
John Roberts  
Tony Saunders (via teleconference)

Members Absent – 1

Mike Duggan (non-voting)

Let the record show that 8 Commission members eligible to vote were present; 7 participated in person and 1 participated via teleconference. A quorum was present. One non-voting member was also present.

**III. Approval of Proposed Minutes from the July 25, 2016 School District Meeting**

Motion made to approve the draft minutes of the Commission's July 25, 2016 School District Meeting as presented. Motion moved and supported, the Commission approved the minutes of the July 25, 2016 meeting as presented.

**IV. Executive Director's Report - None**

**V. Old Business - None**

**VI. New Business**

**a. Consideration of the 2017 Regular Meeting Schedule (FRC School District Resolution 2016-9)**

Motion made to approve the dates of the 2017 Regular Meeting Schedule (School District Resolution 2016-9) as presented. Motion moved and supported. The Commission unanimously approved School District Resolution 2016-9 as presented.

**b. Community District Presentation on Academics**

Interim Superintendent Alycia Meriweather gave a presentation on Academics for the Community District. The presentation included: the Academic Advisory Council's research and best practices, academic progress, three-year trends by grade level, an upcoming data dashboard, addressing chronic student absences, and the academic calendar for the new school year. She addressed questions from the Commission.

**c. Presentation on the Community District's Monthly Report**

Deputy Superintendent/CFO Marios Demetriou presented his monthly financial report and addressed questions from the Commission. The report included operational updates, the school readiness plan, and various financial reports as of July 31, 2016.

**d. Presentation on the Community District's debt service requirements certification per MCL 141.1636(11)**

Mr. Demetriou presented the Community District's debt service requirements report. The Community District currently has no debt service requirements.

**e. Consideration of the Community District's August 2016 budget amendment requests per MCL 141.1637(c) (FRC School District Resolution 2016-10)**

Mr. Demetriou presented the School District's omnibus Budget Amendment Request No. 1 for consideration. The amendments include various revenue and corresponding expenditure increases, as well as realigning various costs between functions. The net impact is zero.

Motion made to approve the Community District's August 2016 budget amendment (Resolution 2016-10) as presented. Motion moved and supported. The Commission approved School District Resolution 2016-10 as presented.

**f. Consideration of the Community District's August 2016 contract approval requests per MCL 141.1636(6) (FRC School District Resolution 2016-11)**

Public Act 181 of 2014 requires the Financial Review Commission to review and approve contracts meeting any of the three following criteria: 1) the contract exceeds \$750,000; 2) the contract has a term exceeding 2 years; and 3) multiple contracts within a single entity that exceed \$750,000 in aggregate.

Mr. Demetriou gave an overview of the Community District's 3 contract approval requests and addressed questions from the Commission. All contracts have been reviewed with the FRC Advisory Subcommittee on Contracts and Procurement.

Motion made to approve the Community District's 3 August 2016 contract approval requests (FRC School District Resolution 2016-11) as presented. Motion moved and supported. The Commission approved School District Resolution 2016-11.

g. **Consideration of the Community District's August 2016 out-of-state travel reimbursement requests per MCL 141.1637(q) (FRC School District Resolution 2016-12)**

Public Act 181 of 2014 requires the Financial Review Commission to review and approve the Community District's out-of-state travel reimbursements to school board members, officials, and employees. Mr. Demetriou presented one August 2016 request for the Community District.

Motion made to approve the Community District's August 2016 out-of-state travel reimbursement requests (FRC School District Resolution 2016-12) as presented. Motion moved and supported. The Commission approved School District Resolution 2016-12.

**VII. Public Comment**

John Lauve, Vida Lashley, Helen Moore, Teresa Kelly, Nicole Conaway, Maria Dawson, Kimberly Jackson, and Shannon Miller

**VIII. Next Meeting Date**

School District Regular Meeting: Friday, September 16, 2016 following the City Meeting, beginning no earlier than 2:30 p.m. at Cadillac Place, 3062 West Grand Boulevard, Suite L-150, Detroit, MI 48202

**IX. Adjournment**

Motion made to adjourn. Motion moved and supported, the Commission approved the motion to adjourn.

There being no further business, the meeting adjourned at 4:47 p.m.

**Financial Review Commission  
 Monthly Meeting  
 School District  
 Resolution Roll Call Vote  
 Monday, August 29, 2016**

<b>FRC 08/29/2016 Meeting</b>	<b>FRC SD Resolution 2016-9 (2017 regular meeting schedule)  Roll Call</b>	<b>FRC SD Resolution 2016-10 (August 2016 budget amendments)  Roll Call</b>	<b>FRC SD Resolution 2016-11 (August 2016 contracts approval requests)  Roll Call</b>	<b>FRC SD Resolution 2016-12 (August 2016 out-of-state travel reimbursement requests)  Roll Call</b>
Mr. Burks	Yes	Yes	Yes	Yes
Ms. Fox	Yes	Yes	Yes	Yes
Mr. James	Yes	Yes	Yes	Yes
Mr. Khouri	Yes	Yes	Yes	Yes
Mr. Martin	Yes	Yes	Yes	Yes
Ms. Meriweather	Yes	Yes	Yes	Yes
Mr. Roberts	Yes	Yes	Yes	Yes
Mr. Saunders	Yes	Yes	Yes	Yes

Signed by: J. Creaves

Date: 8/29/16

# Detroit Public Schools Community District

## *Discussion Document - Financial Review Commission*

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September 16, 2016

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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DETROIT FINANCIAL REVIEW COMMISSION**

**SCHOOL DISTRICT RESOLUTION 2016-13**

**CERTIFYING THE DETROIT PUBLIC SCHOOLS COMMUNITY  
DISTRICT'S COMPLIANCE WITH THE MICHIGAN FINANCIAL REVIEW  
COMMISSION ACT**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the "Act"), allows for the creation of the Detroit Financial Review Commission (the "Commission") within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the Detroit Public Schools Community District (the "Community District") beginning on June 21, 2016; and

WHEREAS, Section 6(2) of the Act requires the Commission to ensure that the Community District is complying with the terms and conditions of the Act; and

WHEREAS, Section 6(2) of the Act further requires the Commission, except as otherwise provided in Section 8 of the Act, to certify by October 1 each year that the Community District is in substantial compliance with the provisions of the Act; and

WHEREAS, at the Commission meeting on September 16, 2016, documentation of the Community District's compliance with the Act from June 21, 2016 through August 31, 2016, attached as **Exhibit A** to this Resolution, was presented for consideration.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the Commission hereby certifies that the Community District is in substantial compliance with the provisions of the Act for the period from June 21, 2016 through August 31, 2016.
2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.

## Certification of DPSCD compliance with PA 181

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Certification of DPSCD's Compliance with the Michigan Financial Review Commission Act, Section 6(3) is required annually. This certification is due by October 1, 2016 and thus, the FRC must act on it at the September 16, 2016 FRC meeting, the last meeting before October 1.

## DETROIT FINANCIAL REVIEW COMMISSION

Annual Certification of Detroit Public Schools Community District (“DPSCD”)  
Compliance with the Michigan Financial Review Commission Act (Act 181 of 2014)  
Per MCL 141.1636(2)

For the Period June 21, 2016 through August 31, 2016

Required Annually by October 1  
Presented on September 16, 2016

<b>Requirement</b>	<b>FRC Act Sec. No.</b>	<b>Compliance</b>
Statutory compliance: Section 8 of the publicly funded health insurance contribution act, 2011 PA 152, MCL 15.568.	6(3)(a)	See DPSCD’s attached verification of compliance.
Statutory compliance: The revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.	6(3)(c)	See DPSCD’s attached verification of compliance.
Statutory compliance: The uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.	6(3)(d)	See DPSCD’s attached verification of compliance.
Statutory compliance: The Revised School Code, 1976 PA 451, MCL 380.1 to 380.1852	6(3)(e)(i)	See DPSCD’s attached verification of compliance.
Statutory compliance: Article I of the State School Aid Act of 1979, 1979 PA 94, MCL 388.1601 to 388.1772	6(3)(e)(ii)	See DPSCD’s attached verification of compliance.
Statutory compliance: The public School Employees Retirement Act of 1979, 1980 PA 300, MCL 38.1301 to 38.1437	6(3)(e)(iii)	See DPSCD’s attached verification of compliance.
FRC review and approval of all applicable contracts	6(6)	DPSCD has submitted 5 applicable contracts. FRC has approved all of them.
DPSCD and its CFO provide needed information and documents to FRC and attend FRC meetings when needed	6(7), 7(d), and 7(o)	DPSCD and CFO have been responsive to requests for information and documents and have attended meetings when requested.
FRC review and approval of collective bargaining agreements (CBAs)	6(9)	DPSCD has submitted 7 CBA extension agreements. FRC has approved all of them.
Quarterly debt service certifications	6(11)	DPSCD has provided all quarterly certifications.
FRC review of DPSCD revenue estimates	7(a)	DPSCD has provided its revenue estimates to the FRC in connection with its budget submissions per subsection 7(c).
FRC review and approval of the annual budget and budget amendments	7(c)	DPSCD submitted its FY 2017 Budget to the FRC on June 24, 2016. FRC approved it on June 27, 2016. DPSCD has submitted 1 omnibus FY 2017 budget amendment to date. FRC has approved it.
FRC review and approval of requests to issue debt	7(e)	DPSCD has not submitted any requests to issue debt.
FRC reviews compliance with a deficit elimination plan	7(f)	DPSCD has not been required to submit a deficit elimination plan.
FRC approval of Chief Financial Officer appointment	7(h)	DPSCD submitted its appointment of its Chief Financial Officer. FRC approved the appointment on July 25, 2016.

**FRC School District Resolution 2016-13**  
**Exhibit A**

FRC approval to alter the DPSCD Superintendent's contract or to terminate the DPSCD Superintendent	7(i)	DPSCD has not undertaken such actions.
FRC review and approval of reimbursements for out-of-state travel	7(q)	DPSCD has submitted 30 reimbursement requests for out-of-state travel. FRC has approved all of them.

# DETROIT PUBLIC SCHOOLS COMMUNITY DISTRICT

**Marios Demetriou**

Deputy Superintendent of Finance & Operations

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3011 West Grand Boulevard  
Detroit, MI 48202

Phone: (313) 873-4147  
Fax: (313) 873-4478  
[www.detroitk12.org](http://www.detroitk12.org)

**To:** Financial Review Commission ("FRC")

**Subject:** Certification of Detroit Public Schools Community District ("DPSCD") Compliance with the Public Act 181 of 2014 ("PA 181"), Section 6(3)

**Issuance Date:** September 16, 2016

## 1. AUTHORITY

1.1. PA 181, Section 6(3) states that the commission shall ensure that, where applicable, a qualified school district complies with the provisions of all of the following, as applicable, and may request verification of compliance. The provisions of PA 181, Section 6(3) include: (a) Section 8 of the publicly funded health insurance contribution act, 2011 PA 152, MCL 15.568.; (c) The revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.; (d) The uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.; (e)(i) The revised school code, 1976 PA 451, MCL 380.1 to 380.1852.; (e)(ii) Article I of the state school aid act of 1979, 1979 PA 94, MCL 388.1601 to 388.1772.; (e)(iii) The public school employees retirement act of 1979, 1980 PA 300, MCL 38.1301 to 38.1437.

## 2. PURPOSE

2.1 The FRC has requested the Deputy Superintendent of Finance & Operations of DPSCD verify compliance with the provisions outlines in Section 1.1 of this letter.

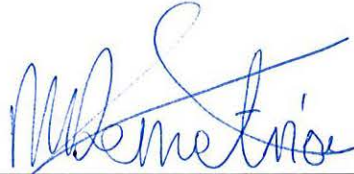
## 3. OBJECTIVES

- 3.1. DPSCD is in compliance with Section 8 of the publicly funded health insurance contribution act, 2011 PA 152, MCL 15.568.
- 3.2. DPSCD is in compliance with the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.
- 3.3. DPSCD is in compliance with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a.
- 3.4. DPSCD is in compliance with the Revised School Code, 1976 PA 451, MCL 380.1 to 380.1852
- 3.5. DPSCD is in compliance with Article I of the State School Aid Act of 1979, 1979 PA 94, MCL 388.1601 to 388.1772
- 3.6. DPSCD is in compliance with the Public School Employees Retirement Act of 1979, 1980 PA 300, MCL 38.1301 to 38.1437.

In accordance with PA 181 and at the request of the FRC, I, Marios, Deputy Superintendent of Finance & Operations of DPSCD, hereby certify that DPSCD is in compliance and/or substantial compliance with the provisions outlined in Section 1.1 of this letter.

**CERTIFIED**

9-14-2016

A handwritten signature in blue ink, appearing to read "M Demetriou", written over a horizontal line.

Date

Marios Demetriou, Deputy Superintendent of Finance & Operations

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## Budget review summary

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- As DPSCD is almost 3 months into its first fiscal year, it is facing a variety of activity that could impact the budget
- While some items are expected to increase revenues there are also items that could decrease revenues and/or increase expenditures
- At this point, it is estimated that any increase in expenditures could be funded entirely by new revenues (primarily one-time in nature)
- Consistent with prior years, initial enrollment counts are lagging the Adopted Budget. However, enrollment is trending in the right direction and the gap is narrowing
- While there are risks to the budget that could impact revenue and expenditures, such as enrollment loss, building and maintenance costs, wages/benefits, etc., DPSCD is prepared to take mitigating actions available to ensure a balanced budget

## FY17 budgeted revenue summary

	(Revenue Only)			Notes
	Adopted FY17 Budget	Estimated Impact	Adjusted FY17 Budget	
Revenues				
Local Sources	\$ 9,299,330	\$ -	\$ 9,299,330	
Local Received Thru Another Public School	41,756,504	2,000,000	43,756,504	EAA services and lease revenue
State Sources	445,820,225	(4,500,000)	441,320,225	Renaissance Zone revenue loss
Federal Sources	142,198,114	-	142,198,114	
Incoming Transfers & Other Financing Sources	33,256,058	20,300,000	53,556,058	Transfers from DPS and asset sales
Total Revenues	<u>672,330,231</u>	<u>17,800,000</u>	<u>690,130,231</u>	
Expenditures				
Instruction	334,818,296		334,818,296	
Support Services:				
Pupil Support Services	60,851,685		60,851,685	
Instructional Staff	53,634,411		53,634,411	
General Administration	3,836,974		3,836,974	
School Administration	38,454,265		38,454,265	
Business Support Services	9,481,223		9,481,223	
Operation & Maintenance	84,854,606		84,854,606	
Transportation	35,031,312		35,031,312	
Central Support Services	28,331,821		28,331,821	
Other Support Services	842,576		842,576	
Total Support Services	<u>315,318,873</u>	<u>-</u>	<u>315,318,873</u>	
Community Services	4,242,729		4,242,729	
Facilities Acquisition	606,809		606,809	
Total Expenditures	<u>654,986,707</u>	<u>-</u>	<u>654,986,707</u>	
Net Surplus / (Deficit)	<u>\$ 17,343,524</u>	<u>\$ 17,800,000</u>	<u>\$ 35,143,524</u>	
Fund Balance				
Designated for future investment	12,343,524	-	12,343,524	
Undesignated fund balance	5,000,000	17,800,000	22,800,000	
Ending Fund Balance	<u>\$ 17,343,524</u>	<u>\$ 17,800,000</u>	<u>\$ 35,143,524</u>	

## Budget risk analysis

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### 1. Enrollment Sensitivity Analysis (Estimated)

	Enrollment Decrease from Budget					
	(250)	(500)	(1,000)	(1,500)	(2,000)	(2,500)
State Aid loss	\$ (1,888,000)	\$ (3,776,000)	\$ (7,552,000)	\$ (11,328,000)	\$ (15,104,000)	\$ (18,880,000)
Other revenue loss	(125,000)	(250,000)	(500,000)	(750,000)	(1,000,000)	(1,250,000)
Vacancies eliminated	500,000	1,000,000	2,000,000	3,000,000	4,000,000	5,000,000
Net impact	\$ (1,513,000)	\$ (3,026,000)	\$ (6,052,000)	\$ (9,078,000)	\$ (12,104,000)	\$ (15,130,000)

Key Assumptions: Enrollment (budgeted): 45,511; Foundation allowance per student (budgeted): \$7,552; Other variable revenue per student: \$500 (estimated); Loss of students per teacher elimination: 50 (estimated); Fully-loaded teacher cost: \$100,000 (estimated)

### 2. Other Risks (Estimated)

- Building and maintenance costs due to asset failures or non-compliance
- Financial impact of wage/benefit increases for other unions and non-union employees
- Collection of Education Achievement Authority revenue

## Key assumptions for DPSCD FY17 cash flow forecast

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1. The monthly cash forecast presented herein is based upon the FY2017 Adopted Budget for DPSCD as approved by the FRC, but also includes some estimated activity related to certain revenues and expenditures recently identified that is not in the Adopted Budget. Sources and uses of cash are preliminary estimates and subject to change as new information is presented.
2. Cash activity represents the estimated sources and uses of DPSCD operations. While new bank accounts have been created and cash activity for DPSCD is tracked separately, there may likely be some due to/from activity that could occur during the transition period, which the management team will actively track and reconcile.
3. \$25 million of emergency loan proceeds was transferred to DPSCD during July 2016 in accordance with emergency loan documents
4. Ordinary course pension contributions resumed in July 2016 and relate to eligible payroll of DPSCD employees. No specific amounts are included for past due amounts or accrued payroll relating to pay periods before July 1, 2016.

## FY17 monthly cash flows – DPSCD

<i>\$ in millions</i>	2016						2017						FY 17 Total
	July Actuals	August Actuals	September Forecast	October Forecast	November Forecast	December Forecast	January Forecast	February Forecast	March Forecast	April Forecast	May Forecast	June Forecast	
<b>Cash Receipts</b>													
State School Aid	\$ -	\$ -	\$ -	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 38.4	\$ 345.5
Grants	15.0	-	10.8	12.8	12.1	33.1	14.6	14.6	19.9	14.6	14.6	18.1	180.4
Other receipts	25.0	15.4	1.9	13.1	23.4	4.4	6.0	4.4	4.4	4.4	4.4	4.4	111.0
<b>Total Cash Receipts</b>	<b>\$ 40.0</b>	<b>\$ 15.4</b>	<b>\$ 12.7</b>	<b>\$ 64.3</b>	<b>\$ 73.9</b>	<b>\$ 75.9</b>	<b>\$ 59.0</b>	<b>\$ 57.4</b>	<b>\$ 62.6</b>	<b>\$ 57.4</b>	<b>\$ 57.4</b>	<b>\$ 60.9</b>	<b>\$ 636.8</b>
<b>Cash Disbursements</b>													
Payroll and benefits	\$ (2.5)	\$ (14.6)	\$ (23.8)	\$ (33.2)	\$ (37.0)	\$ (50.7)	\$ (37.0)	\$ (37.8)	\$ (45.2)	\$ (37.8)	\$ (37.8)	\$ (45.8)	\$ (403.4)
Vendor services	(0.0)	(0.5)	(16.7)	(12.5)	(13.5)	(15.5)	(14.0)	(14.0)	(15.5)	(14.0)	(14.0)	(15.5)	(145.7)
Other	-	(0.0)	(1.3)	(2.6)	(2.6)	(3.8)	(12.6)	(12.6)	(2.6)	(2.6)	(2.6)	(3.8)	(47.2)
<b>Total Cash Disbursements</b>	<b>\$ (2.5)</b>	<b>\$ (15.1)</b>	<b>\$ (41.8)</b>	<b>\$ (48.4)</b>	<b>\$ (53.1)</b>	<b>\$ (70.0)</b>	<b>\$ (63.6)</b>	<b>\$ (64.4)</b>	<b>\$ (63.4)</b>	<b>\$ (54.4)</b>	<b>\$ (54.4)</b>	<b>\$ (65.1)</b>	<b>\$ (596.3)</b>
Beginning cash balance	\$ -	\$ 37.5	\$ 37.8	\$ 8.6	\$ 24.6	\$ 45.4	\$ 51.3	\$ 46.7	\$ 39.6	\$ 38.9	\$ 41.8	\$ 44.8	\$ -
Net cash flow	37.5	0.2	(29.1)	16.0	20.8	5.9	(4.6)	(7.0)	(0.7)	2.9	2.9	(4.2)	40.6
Ending cash balance	\$ 37.5	\$ 37.8	\$ 8.6	\$ 24.6	\$ 45.4	\$ 51.3	\$ 46.7	\$ 39.6	\$ 38.9	\$ 41.8	\$ 44.8	\$ 40.6	\$ 40.6

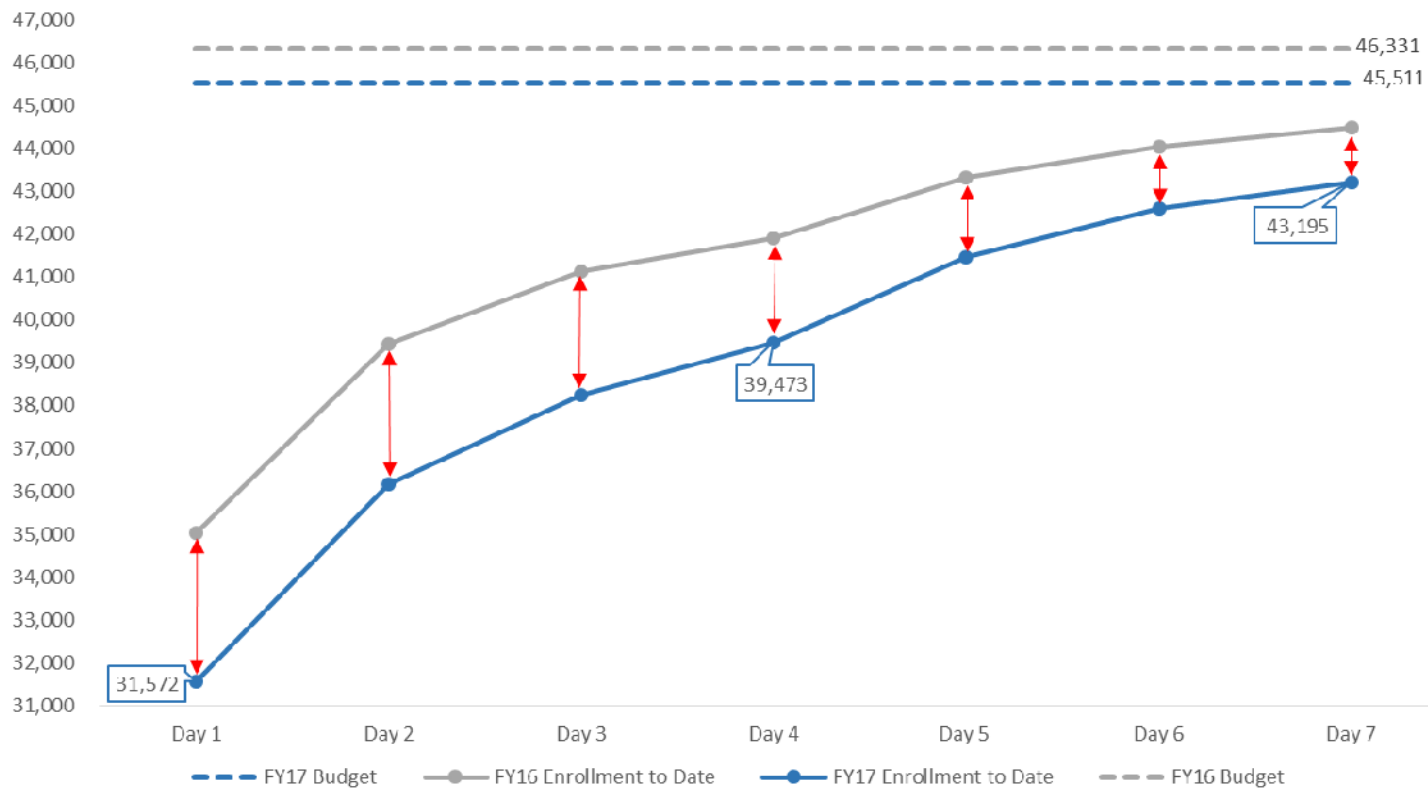
- The cash flows above are net of DPS bank account activity and thus show solely payments and receipts related to DPSCD; Forecast includes actuals through September 9, 2016
- Intra-month cash balances may be lower than ending month balances shown above due to timing of receipts and disbursements
- Cash flows above are adjusted for the aforementioned budget amendments, namely:
  - Updated estimate of capital asset sales amounts and timing
  - Loss of Renaissance zone revenue
  - Estimated impact of tentative labor agreements with DFT and other employees

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## FY17 student enrollment update

- DPS was ~1,800 students short of budget in FY16 and met budget. This year DPSCD is ~2,300 students short of budget, ~500 less relative to FY16. However, this “gap” (between the 1,800 and 2,300) is closing each day.
- Compared to Day 7 of FY16, the gap has been reduced to 1,292 from 3,460 on Day One
- Compared to FY17 Budget, the gap has been reduced to 2,316 from 9,343 on Day One.
- Thirty-seven (37) schools have taken attendance for equal to or greater than the number, same day last year.

DPSCD FY17 vs. FY16 First Seven Days of Enrollment



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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DETROIT FINANCIAL REVIEW COMMISSION**

**SCHOOL DISTRICT RESOLUTION 2016-14**

**APPROVING THE COLLECTIVE BARGAINING AGREEMENT WITH  
THE DETROIT FEDERATION OF TEACHERS**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the “Act”), allows for the creation of the Detroit Financial Review Commission (the “Commission”) within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the Detroit Public Schools Community District (the “Community District”) beginning on June 21, 2016; and

WHEREAS, Section 6(9) of the Act requires that during the period of oversight, the Detroit Public Schools Community District (the “Community District”) shall submit new and amended collective bargaining agreements, to which it is a party, to the Commission for review and approval after approval by the Community District’s governing body and ; and

WHEREAS, Section 6(9) of the Act further requires the Commission to approve or reject collective bargaining agreements submitted to it within 45 days of submission; and

WHEREAS, the Tentative Agreement between the Community District and Detroit Federation of Teachers, AFT Local 231 (the “DFT CBA”) has been approved by the parties to the Tentative Agreement, which agreement shall be effective as of July 1, 2016 and shall continue in effect until the initial elected Detroit Public School Community District school board

takes office, and thereafter until June 30, 2017, subject to the limitations of MCL 380.12(b) (3); and

WHEREAS, the FRC is in receipt of an opinion letter from Clark Hill PLC addressed to the Community District, and with the permission of Clark Hill PLC, the Commission may rely on the opinion stated in the opinion letter. The opinion letter states, in part, that “by the express terms of the highlighted language above, (MCL12b(3)) the proposed collective bargaining agreement would not be binding upon the new school board, unless the new school board voluntarily chose to be so bound. Moreover, the ‘limitations in the MCL 12b(3)’ are expressly incorporated into both the tentative agreement and proposed collective bargaining agreement with the DFT, which establishes a contractual restriction in addition to the statutory limitation.

Accordingly, in our opinion the clear and unambiguous language in MCL 380.12b(3) highlighted above, which is incorporated by reference into the parties’ agreements, plainly provides that it is for the new school board alone to decide whether it wants to be bound in any way by the new collective bargaining agreements negotiated by the Transition Manager prior to the new school board taking office.”

WHEREAS, at the Commission meeting on September 16, 2016, the Detroit School Community School District presented the aforementioned collective bargaining agreement to the Commission.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the DFT CBA presented to the Commission on September 16, 2016, is hereby approved.

2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.



# CLARK HILL

---

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September 14, 2016

The Honorable Steven Rhodes  
Transition Manager  
Detroit Public Schools Community District  
Fisher Building, Suite 1400  
3011 W Grand Blvd  
Detroit, MI 48202

**Re: Proposed DPSCD Successor Collective Bargaining Agreement**

Dear Judge Rhodes:

This is in response to your request for a brief opinion letter regarding the duration and the binding nature of collective bargaining agreements reached during your tenure as the Detroit Public Schools Community District (DPSCD) Transition Manager, before the seating of newly elected DPSCD board members on or sometime after January 1, 2017.

All but one of the collective bargaining agreements negotiated by the Detroit Public Schools (DPS) applicable to DPSCD employees, as DPSCD is the successor employer to DPS under Section 12b(7)(h) of the Revised School Code, MCL 380.12b(7)(h), were to expire on June 30, 2016. DPSCD and the bargaining representatives of employees covered by these agreements agreed to extend the agreements until July 31, 2016, and thereafter on a day-to-day basis with the right to terminate the agreements on 48-hours written notice.

DPSCD, through you as its Transition Manager, recently entered into a tentative agreement for a successor collective bargaining agreement with the Detroit Federation of Teachers (DFT) covering approximately 3400 teachers and other professional employees. The new collective bargaining agreement will go into effect only if ratified by the DFT membership as well as the Financial Review Commission, which must approve DPSCD's collective bargaining agreements. MCL 380.387; MCL 141.1636(9). Both the tentative agreement and the proposed collective bargaining agreement contain the following statement as to the time period during which the collective bargaining agreement would be in effect:

“This Agreement shall be effective as of July 1, 2016 and shall continue in effect until the initial elected Detroit Public Schools Community District school board takes office, and thereafter until June 30, 2017, subject to the limitations in MCL 380.12b(3).”

Your specific question is to what degree the proposed collective bargaining agreement would be binding upon the elected school board for DPSCD, which will take office on or after January 1, 2017, at which time it will replace the Transition Manager as the governing body for the district.

Section 12b(3) of the Revised School Code, MCL 380.12b(3), which is expressly referenced in both the tentative agreement and the collective bargaining agreement, states in relevant part as follows:

(3) Before the transfer date, the governor shall designate an individual who is authorized by law to act for and in the place and stead of the school board and superintendent of schools of the qualifying school district as the transition manager for the community district to perform functions and satisfy responsibilities of the community district, of the school board and superintendent of schools of the community district, and of the transition manager under this section until the elected members of the school board of the community district are elected and take office under section 384. **Until that time, the transition manager shall exercise the powers, perform the functions, and satisfy the responsibilities of the school board and superintendent of schools of the community district, except that the transition manager shall not negotiate or enter into any collective bargaining agreement that would bind the elected school board of the community district.** Until that date, the transition manager also shall perform the functions and satisfy the responsibilities of the school board and superintendent of schools of the qualifying school district relating to the repayment of debt and the dissolution of the qualifying school district, including, but not limited to, all of the following:...[emphasis added]

By the express terms of the highlighted language above, the proposed collective bargaining agreement would not be binding upon the new school board, unless the new school board voluntarily chose to be so bound. Moreover, the “limitations in MCL 12b(3)” are expressly incorporated into both the tentative agreement and proposed collective bargaining agreement with the DFT, which establishes a contractual restriction in addition to the statutory limitation.

Accordingly, in our opinion the clear and unambiguous language in MCL 380.12b(3) highlighted above, which is incorporated by reference into the parties’ agreements, plainly provides that it is for the new school board alone to decide whether it wants to be bound in any way by the new collective bargaining agreements negotiated by the Transition Manager prior to the new school board taking office.

It should be noted that legal counsel for the DFT has taken the position that compensation increases not set forth as one-time payments – which would include in the proposed agreement the \$250,000 class-size overage pool; the movement of teachers who have been on Step 1 for two years or more to Step 3; and a movement in steps in the event that additional local revenues are

Honorable Steven Rhodes  
September 14, 2016  
Page 3

received in excess of \$12 million for the 2016-17 school year, excluding one-time payments – would become existing terms and conditions of employment that could not be changed without bargaining to impasse, at which time the board could unilaterally implement a change in accordance with the Public Employment Relations Act (PERA), MCL 423.201 et. seq., or upon mutual agreement. The only authority cited for this position is that the legislature did not amend PERA when enacting the DPSCD legislation. We disagree with this position, again on the basis of the clear and unambiguous language highlighted in Section 12b(3) above which is also incorporated into the parties' agreements.

We look forward to the opportunity to discuss the issues above in more detail at your convenience.

Sincerely yours,

CLARK HILL PLC



John L. Gierak



Reginald M. Turner

JLG/tf

**From:** Gierak, John L. [<mailto:JGierak@ClarkHill.com>]  
**Sent:** Wednesday, September 14, 2016 4:05 PM  
**To:** Steven Rhodes ([steven.rhodes@detroitk12.org](mailto:steven.rhodes@detroitk12.org))  
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**Cc:** Turner, Reginald M., Jr. <[RTurner@ClarkHill.com](mailto:RTurner@ClarkHill.com)>  
**Subject:** Opinion letter regarding DPSCD-DFT collective bargaining agreement 9-14-16

Dear Ron,

Pursuant to your request, enclosed please find our opinion letter to Judge Rhodes regarding the binding nature of the proposed DPSCD-DFT collective bargaining agreement upon the new school board which will take office in January 2017. As we discussed, we believe that the FRC can rely upon this opinion letter in its review of the proposed labor contract. Please call either Reggie or me if you wish to discuss further.

Thanks,  
John

**John L. Gierak**

CLARK HILL PLC

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## DFT collective bargaining agreement update

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- The Detroit Federation of Teachers (“DFT”) reached a tentative agreement for a new contract with DPSCD that was ratified by DFT members on September 14, 2016
- Summary of key economic benefits:
  1. Step Increase (off-schedule): \$3.4M
    - Those members that are not at the top of their pay scale will be moved up one step (i.e. to the next pay level). This Step Increase is referred to as “off-schedule” because it is not permanent. It could become permanent if new local revenue is collected in excess of \$12M.
  2. Bonus of 3% (one-time): \$4.4M
    - A one-time bonus of 3% will be paid to all members who are already at the top of the pay scale and therefore not eligible for step increases)
  3. Step increase 1 to 3: \$200k
    - Members that have been frozen at step 1 since 2014-15 or earlier will be moved to step 3
  4. Excess Class Size Pool: \$250k
    - A pool of funds will be created in the amount of \$250k to compensate members who preside over excessive class sizes. This pool will be augmented by \$1,000 for every student over the Adopted Budget (45,511). This pool of funds will be shared by teachers whose class sizes are over the agreed-upon class sizes.

## Estimated economic impact of DFT agreement – FY17

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<u>Benefit Type</u>	<u>DFT</u>
Step increase (off-schedule) <sup>1</sup>	\$ 3,416,503
3% One-time Bonus <sup>2</sup>	4,436,815
Step increase 1 to 3	200,000
Excess class size pool	250,000
<u>All Benefits</u>	<u>\$ 8,303,318</u>

Notes:

1. Applies to all employees who are not at the top salary step; Includes pension fringe factor and employer taxes
2. To be paid only to employees at top step of salary schedule. Includes employer taxes, but excludes pension fringe factor

## Estimated impact of DFT agreement on budget

	Adopted FY17 Budget	Estimated Impact	Adjusted FY17 Budget	Notes
<b>Revenues</b>				
Local Sources	\$ 9,299,330	\$ -	\$ 9,299,330	
Local Received Thru Another Public School	41,756,504	2,000,000	43,756,504	EAA services and lease revenue
State Sources	445,820,225	(4,500,000)	441,320,225	Renaissance Zone revenue loss
Federal Sources	142,198,114	-	142,198,114	
Incoming Transfers & Other Financing Sources	33,256,058	20,300,000	53,556,058	Transfers from DPS and asset sales
<b>Total Revenues</b>	<b>672,330,231</b>	<b>17,800,000</b>	<b>690,130,231</b>	
<b>Expenditures</b>				
Instruction	334,818,296	6,732,952	341,551,248	Estimated impact of DFT terms
<b>Support Services:</b>				
Pupil Support Services	60,851,685	1,181,824	62,033,509	Estimated impact of DFT terms
Instructional Staff	53,634,411	333,041	53,967,452	Estimated impact of DFT terms
General Administration	3,836,974	-	3,836,974	
School Administration	38,454,265	33,269	38,487,534	Estimated impact of DFT terms
Business Support Services	9,481,223	-	9,481,223	
Operation & Maintenance	84,854,606	-	84,854,606	
Transportation	35,031,312	-	35,031,312	
Central Support Services	28,331,821	7,558	28,339,379	Estimated impact of DFT terms
Other Support Services	842,576	-	842,576	
<b>Total Support Services</b>	<b>315,318,873</b>	<b>1,555,692</b>	<b>316,874,565</b>	
Community Services	4,242,729	14,674	4,257,403	Estimated impact of DFT terms
Facilities Acquisition	606,809	-	606,809	
<b>Total Expenditures</b>	<b>654,986,707</b>	<b>8,303,318</b>	<b>663,290,025</b>	
<b>Net Surplus / (Deficit)</b>	<b>\$ 17,343,524</b>	<b>\$ 9,496,682</b>	<b>\$ 26,840,206</b>	
<b>Fund Balance</b>				
Designated for future investment	12,343,524	-	12,343,524	
Undesignated fund balance	5,000,000	9,496,682	14,496,682	
<b>Ending Fund Balance</b>	<b>\$ 17,343,524</b>	<b>\$ 9,496,682</b>	<b>\$ 26,840,206</b>	

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Statement of Senate Majority Leader Arlan B. Meekhof Regarding  
The Proposed Union Contract for Detroit Public Schools Community District

The collective bargaining by the transition manager disrespects the return to local control anticipated by the recent legislation, and at this time—prior to the next pupil count day of the academic year—it is financially irresponsible for this commission to approve the contract.

Section 12b of 2016 PA 192 specifically prohibits the transition manager from negotiating or entering into any collective bargaining agreement that would bind the elected school board of the new community district. The term of the contract before the commission today would effectively run until June 30, 2017, after the newly elected board takes office. In this case, the transition manager is attempting to avoid this collective bargaining restriction through a technical loophole, arguing that the new school board can void the agreement if it desires. However, that approach disrespects the return to local control by binding the new school board *unless it takes affirmative action to void the contract*.

The intent of the legislation was to expedite the return of a local school board to manage the district with oversight by this commission. At best, the transition manager has intentionally ignored the intent of the legislation; at worst, the transition manager has exceeded his statutory authority.

It is impossible at this point to know how the new school board members would prioritize spending of any surplus funds available to the district. Rather than one-time pay adjustments, the new school board might instead prioritize spending on programming, textbooks and supplies, technology, facility improvements, additional staff, or any number of other priorities. Unfortunately, the transition manager has stolen this choice from the elected board as nearly all of the designated funds will be spent before the elected board takes office on January 1. Certainly the legislature did not intend for transition funds to be used for one-time pay adjustments.

Furthermore, if one thing was clear during the legislative process, it was that the balance sheet of the school district was constantly changing with new information and updated estimates. In fact, estimates of transition costs and potential structural budget deficits seemed to vary from month to month and from document to document presented to the legislature. At the time the legislation passed, some critics even argued that the legislature failed to provide enough funding for the transition and that the district would face a new deficit as early as this year. Now, only months later, the transition manager apparently has identified what he believes are surplus funds available for one-time pay adjustments. Yet it is impossible at this point to know exactly how much state funding will flow to the district this year.

Perhaps more important to the commission, approval of this contract is financially irresponsible given the timing of the approval and the constantly changing balance sheet of the district. In terms of timing, the amount of state funding available to the district for the school year is not yet certain, because the next pupil count will not take place until October 5. That count will determine, in part, the amount of funding made available to the district this year. Until that

Statement of Senate Majority Leader Arlan B. Meekhof Regarding  
The Proposed Union Contract for Detroit Public Schools Community District

time, the district—and this commission—lack the certainty necessary to determine whether any surplus funding is available for one-time pay adjustments.

This commission is charged with overseeing the fiscal management of the new school district. Given the uncertain nature of the school district finances—in particular, the amount of state funding that will be available to the district this year—it is irresponsible to approve this contract. The commission should reject the proposed contract and allowed the newly elected school board to have a meaningful role in the collective bargaining process when it takes office on January 1.

Let me be clear, my opposition to the transition manager's actions is in no way an indication of my opinion of Detroit teachers and staff. I do not question their work ethic or their commitment to their students. I understand the challenges faced by teachers and staff and I support their right to negotiate their pay and benefits with the elected school board under the law and within the confines of the legislation.

The actions of the Governor's transition manager demonstrate complete disregard for the intent of the legislation. The administration and transition manager provided information to the legislature that described a school district at the precipice of complete insolvency. The legislature acted to approve \$614 million in debt relief and operating funds in order to ensure an education for the students of Detroit and mitigate the impact of a potential bankruptcy on all school districts in the state. A surplus was never considered a possibility, nor was the role of a transition manager to collectively bargain contracts.

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1	Certification of PA 181 compliance
2	Budget review analysis
3	Collective bargaining agreement update
4	Requests for consideration and approval
5	Appendix

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a

Contract Requests

b

Out of State Travel Requests





STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DETROIT FINANCIAL REVIEW COMMISSION**

**SCHOOL DISTRICT RESOLUTION 2016-15**

**APPROVING THE COMMUNITY DISTRICT'S SEPTEMBER 2016  
CONTRACT REQUESTS**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the "Act"), allows for the creation of the Detroit Financial Review Commission (the "Commission") within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the Detroit Public Schools Community District (the "Community District") beginning on June 21, 2016; and

WHEREAS, Section 6(6) of the Act provides that during the period of oversight, the Commission review and approve the Community District's applicable contracts, as defined by Section 3(a) of the Act, and that an applicable contract does not take effect unless approved by the Commission; and

WHEREAS, at the Commission meeting on September 16, 2016, the Community District presented applicable contracts, attached as **Exhibit A** to this Resolution, for the Commission's review and approval.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the Community District's September 2016 contract requests, attached as **Exhibit A** to this Resolution but excluding any contracts a majority of Commission members present has agreed to exclude as noted in the minutes, are hereby approved.
2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.

## DPSCP Contract Requests

The following contracts are being sent to the FRC for review and approval pursuant to section 6(6) of the Michigan Financial Review Commission Act for the September 16, 2016 FRC meeting

	Department	Contract Number	Description	Contract Request Type	Competitively Bid? If not a New contract, was the original contract competitively bid?	Lowest Bid? If not a New Contract, was the original contract the lowest bid?	DPSCD Approval Date	Comments
1	OPERATIONS	17-0021	Contract Amount: \$1,150,639 with a 10% Contingency Contract Period: September 2016 Source: General Funds/Transition Funds Purpose: To provide new roof replacements for Emerson and Spain Schools. Contractor: Lutz Roofing Location: Shelby Township	New	Yes	Yes	Anticipated Approval 9/16/2016	

## DPSCP Executive Summary for Contracts

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The following contracts are being sent to the FRC for review and approval pursuant to section 6(6) of the Michigan Financial Review Commission Act for the September 16, 2016 FRC meeting

### Item 1

#### OPERATIONS

17-0021            General Fund – To provide new replacement and repairs for two elementary schools.  
Contractor: Lutz Roofing  
Contract Period: September 2016  
Total Contract Amount: \$1,150,639 with a 10% Contingency at the district's discretion

- Costs budgeted to Operations General Fund from the Transition Funds
- Bids to provide roof replacements and repairs for two Elementary Schools (Emerson and Spain), were solicited on Demandstar.com, Buy4Michigan and a newspaper; submittal of proposals were on September 14, 2016.

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a

Contract Requests

b

Out of State Travel Requests



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DETROIT FINANCIAL REVIEW COMMISSION**

**SCHOOL DISTRICT RESOLUTION 2016-16**

**APPROVING THE COMMUNITY DISTRICT'S SEPTEMBER 2016 OUT-  
OF-STATE TRAVEL REIMBURSEMENT REQUESTS**

WHEREAS, Public Act 181 of 2014, the Michigan Financial Review Commission Act (the "Act"), allows for the creation of the Detroit Financial Review Commission (the "Commission") within the Michigan Department of Treasury; and

WHEREAS, Section 6(1) of the Act empowers the Commission to provide oversight for the Detroit Public Schools Community District (the "Community District") beginning on June 21, 2016; and

WHEREAS, Section 7(q) of the Act provides that during the period of oversight, the Commission approve all Community District reimbursements to school board members, officials, and employees for travel outside the state; and

WHEREAS, at the Commission meeting on September 16, 2016, the Community District presented out-of-state travel reimbursement requests, attached as **Exhibit A** to this Resolution, for the Commission's review and approval.

NOW THEREFORE, be it resolved by the Detroit Financial Review Commission as follows:

1. That the Community District's September 2016 out-of-state travel reimbursement requests, attached as **Exhibit A** to this Resolution but excluding any

reimbursements a majority of Commission members present has agreed to exclude as noted in the minutes, are hereby approved.

2. That the minutes of the Detroit Financial Review Commission meeting at which this Resolution is adopted take notice of the adoption of this Resolution.
3. This Resolution shall have immediate effect.

## DPSCD Out-of-State Travel Reimbursement Requests

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The following reimbursements to school board members, officials, and employees for travel outside the state will be sent to the FRC for review and approval pursuant to section 7(q) of the Michigan Financial Review Commission Act for the September 16, 2016 FRC meeting

Number of Participants	Central Office	School-Based	School/ Department	Trip Description	Location of Trip	Dates of Trip	Approved Request for Absence Dates	Funding Source	Total Est. Cost
45		x	Gompers Elementary Middle School (K-8): students and adult chaperones	Educational travel for students and adult chaperones	Washington D.C.	09/25-09/28/2016	09/25-09/28/2016	Grants	\$22,455.00
1	x		Food Service Department	White House Kitchen Garden for the <i>Let's Move!</i> Celebratory Event	Washington D.C.	10/5 – 10/6/2016	10/5 – 10/6/2016	Food Service	\$863.00



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