



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

NICK A. KHOURI  
STATE TREASURER

**DATE:** November 29, 2016

**TO:** Governor Rick Snyder

**FROM:** Romaneir Johnson, Executive Director  
Financial Review Commission

**SUBJECT: Detroit Financial Review Commission Biannual Report for the Detroit Public Schools Community District, No. 1**

This report is being filed on behalf of the Detroit Financial Review Commission (the "FRC") by its Executive Directors, pursuant to the requirements of Section 6(8) of Public Act 181 of 2014, the Michigan Financial Review Commission Act (the "Act"). A copy of this report is being delivered to the Senate Majority Leader and the Speaker of the House of Representatives, and it is being posted on the FRC's Michigan Department of Treasury website. A copy is also being delivered to the Interim Superintendent and the Transition Manager of the Detroit Public Schools Community District ("DPSCD").

Pursuant to Section 6(1) of the Act, the FRC's oversight of the DPSCD began on the date the District became a qualified district, i.e., on June 21, 2016. The FRC has the powers and duties as proscribed by the Act. This is the FRC's first report on DPSCD.

### **Formation of the FRC for Oversight of the Newly-Created DPSCD**

The FRC was originally created on December 10, 2014, with the powers and duties as proscribed by the Act with regard to the City of Detroit upon its exit from its chapter 9 bankruptcy proceedings. In March 2016, the Act was amended to expand the FRC's oversight to include the soon-to-be-created DPSCD and, when DPS no longer has an emergency manager, Detroit Public Schools ("DPS"). DPSCD was created on June 21, 2016, the day on which certain amendments to Public Act 451 of 1976 (the "Revised School Code") became effective. At that time, with DPSCD's fiscal year starting in only ten days, DPSCD immediately asked the FRC to approve its FY17 budget. Therefore the FRC held its first DPSCD meeting on June 24, 2016, during which DPSCD discussed its budget development process and presented the proposed FY17 budget. Three days later, on June 27, 2016, the FRC again met and approved the FY17 budget, thereby allowing DPSCD to continue business operations in the new fiscal year.

### **FY17 Budget**

As described above, the time frame under which the FRC had to review and scrutinize the proposed FY17 budget was far too short for the FRC to perform a complete review. Therefore,

upon approval of the FY17 budget, the FRC made it clear to DPSCD that it must submit an amended budget to the FRC which includes its final student count, and other required documentation that support revenue and expenditures at the FRC December meeting. Also the FRC has requested a budget projection for FY18. This effort would be spearheaded by the newly appointed FRC Executive Director, Romaneir Johnson, who assumed responsibility for this position on October 31, 2016. Some of the information that will assist DPSCD in preparing and the FRC in reviewing the amended budget has been provided by DPSCD to the FRC as follows:

- **Staffing Size/Benchmarking:** DPSCD has been conducting a review of how it compares to its peers in terms of support services spending per student by type (specifically, school administration, central/other support services, operations and maintenance, and transportation). Based on a benchmarking presentation by DPSCD to the FRC, the FRC has requested additional information dealing with areas of significant expenditures, including more information on special education spending. To be clear, the FRC is not suggesting that the spending is inappropriate, but it wants to understand special education expenses because of the large amount of unreimbursed general fund annual spending of approximately \$45 million for special education. This information will assist the FRC in its review of the proposed FY17 budget amendment as well as the development of the FY18 budget.
- **Student Count:** The FY17 budget as submitted and approved by the FRC was based on a projection of 45,511 students, which compared to a count of 46,318 for FY16, a decrease of approximately 1.75%.<sup>1</sup> The latest FTE count for DPSCD is 45,153.52, a 2.5% drop from the prior year. The State foundation allowance is \$7,522 per student and other variable revenues is approximately \$500 per student. Because the student count is 358 less than budgeted, the amended FY17 budget will have revenues of about \$2.9 million less than that in the original budget.
- **Facility Planning:** The FRC and DPSCD have discussed and have begun to perform analysis. This analysis is important because, among other reasons, the Educational Achievement Authority schools in Detroit will become part of DPSCD in the 2017-2018 school year.
- **Health Care Costs:** At the time that the FY17 budget was prepared, DPSCD learned that its cost of health care for its employees was going to be substantially increase as its three year contract with its carrier was expiring. A healthcare consultant was retained by the FRC to attain quality insurance at an affordable cost. DPSCD and various unions worked in collaboration through a robust process to resolve and chose a health care provider for its employees for calendar year 2017. Originally, DPSCD estimated that the increase in cost would be \$2.75 million, but based on the outcome of the RFP and the efforts described above, the increase in cost for FY2017 will be \$1.85 million, a savings of approximately \$800,000.

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<sup>1</sup> The number of students this section represent that used for State Aid Membership.

- **Collective Bargaining Agreements:** The FRC approved a modification to the District’s union contracts. It should be noted that Section 12b(3) of the Revised School Code, MCL 380.12b(3), prohibits the Transition Manager from negotiating or entering “into any collective bargaining agreement that would bind the elected school board of the community district.” The modifications to the collective bargaining agreements each specifically stated that “This Agreement shall be effective as of July 1, 2017 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 MCL380.12b(3).” In approving the modifications outlined below, the FRC relied on the legal opinion of Clark Hill PLC, counsel to DPSCD, that the statutory language was not violated based on the above quoted language in each of the modified collective bargaining agreements. The principal terms of the modifications were as follows:
  - Each member received a step increase (up to the next pay level). This increase in pay became permanent (subject to the limiting language in the modifications quoted above) upon passage of the enhanced millage described below.
  - A one-time bonus of 3% was paid to all members already at the top of the pay scale who were therefore not entitled to the increase set forth above.
  - For teachers, a total amount of \$250,000 was put into a pool to compensate members who preside over excessive class sizes.
  - Certain one-time payments were made to members opting out of the health insurance provided by DPSCD.

The total cost of the modified collective bargaining agreements is estimated to be approximately \$11 million.

- **Wayne County RESA Education Enhancement Millage:** Voters in Wayne County approved an education enhancement millage on November 8, 2017. At an estimated \$385 per student, the enhancement millage is expected to generate approximately \$17 million per fiscal year for DPSCD.

### Statutory Oversight Activities

Sections 6 and 7 of the Act include various powers and duties of the FRC in its oversight of the District. Those statutory requirements and compliance with them to date are noted below.

Requirement	FRC Act Sec. No.	Compliance
Compliance with the Act and other statutory requirements	6(2) and 6(3)	FRC provided its annual certification on September 16, 2016, for the period ending August 31, 2016. The next certification is due by October 1, 2017.
FRC review and approval of all applicable contracts	6(6)	DPSCD has submitted 16 applicable contracts. All have been approved by the FRC.
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. . All have been approved by the FRC.
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 submitted one FY 2017 budget amendment to date. FRC has approved it on August 29, 2016.
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 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. All have been approved by the FRC.

### **Financial Update**

The FRC has approved DPSCD's FY17 adopted budget and the one subsequent budget amendment, but until the FRC receives and fully reviews the upcoming substantial budget amendment, based on the actual student count and other criteria described above, the FRC cannot confirm DPSCD's projected fund balance. Also, the FRC is awaiting completion of DPS's audit for FY16. The FRC will provide a complete financial update of DPSCD and DPS in its next report.

### **New FRC Executive Director**

The Department of Treasury has hired a full time executive director for oversight duties related to DPSCD, and beginning in January 2017, DPS. On October 31, 2016, Ms. Romaneir Johnson assumed responsibility for this position. Prior to this appointment, she held the position of Budget Director of the District of Columbia, Office of Chief Financial Officer of the Education Cluster (District of Columbia Public & Charter Schools) in which she was responsible for a \$1.5 billion budget. In addition, Ms. Johnson has over 20 years' experience in all aspects of accounting, budgeting financial reporting, statistical analysis, and financial management in education, non-profit, fund accounting and financial administration.