



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: May 30, 2017

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. 2

This report is being filed on behalf of the Detroit Financial Review Commission (the “FRC”) by its Executive Director, 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 Superintendent 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 prescribed by the Act. This is the FRC’s second report on 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 |
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| Compliance with the Act and other statutory requirements | 6(2) and 6(3) | The 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 25 applicable contracts. All have been approved by the FRC. |
| DPSCD and its CFO provides needed information and documents to FRC and attend FRC meetings when needed | 6(7), 7(d), and 7(o) | DPSCD representatives and the 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 seven CBA extension agreements. All have been approved at the October 31, 2016 meeting. Seven collective bargaining units are currently under negotiation and will be presented at the June 26, 2017 FRC meeting. |

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| Quarterly debt service certifications | 6(11) | The new District, DPSCD has not issued any debt. DPS 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. The FRC approved it on June 27, 2016. DPSCD submitted three amendments to the FY 2017 budget to date. The FY 2018 budget is expected to be approved at the June 26, 2017 FRC meeting. |
| 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) | FRC approved the contract of DPSCD Superintendent effective May 22, 2017. |
| FRC review and approval of reimbursements for out-of-state travel | 7(q) | DPSCD has submitted 96 reimbursement requests for out-of-state travel. All have been approved by the FRC. |

Financial Update - DPSCD

Based on budget projections as of March 31, 2017, the District estimates it will finish the fiscal year ended June 30, 2017, with a general fund surplus of approximately \$64.5 million. The source of the general fund surplus is primarily generated from one-time transfers related to the new District's legislation, one-time asset sales, and underspending in personnel-related expenses. Hiring qualified personnel continues to be a challenge for the District, as general fund vacancies will amount to approximately \$36 million in 2017. It should be noted that if necessary positions were filled and transitional funding not provided, the District would have been in deficit.

The ending cash balance of the District at the close of March exceeded \$72 million. The District has sufficient cash to make timely payments for payroll, vendors, and other expenses throughout the year. The CFO communicated the District will not have to borrow against its September State Aid payment for the first time in years.

Financial Update – DPS

DPS's comprehensive annual financial report (CAFR) was completed December 15, 2016. The CAFR presents long-term debt service of \$2.02 billion as of June 30, 2016. DPS has a plan in place to pay off \$570 million in operating debts over an 11 year period. The remaining bonded debt will be paid off by 2041 along with amounts owed to the School Revolving Fund when debt service requirements fall below 7 mills. The FRC will continue to monitor DPS's debt activity to ensure payments continue to be on track.

FY 2018 Budget Review

DPSCD is currently in the process of finalizing negotiations with its collective bargaining units and completing its FY 2018 budget. Both the collective bargaining agreements and the FY 2018 budget are projected to be submitted for approval at the June 26, 2017 FRC meeting. This year, the FRC staff will be conducting a detailed review of the FY 2018 budget that will be submitted to the FRC finance subcommittee for review before final submission to the FRC for approval.

Elected Board

A newly elected Board of Education took office in January after the departure of emergency manager, Judge Rhodes. The DPSCD Board consists of seven at-large members. Voters had sixty-three candidates to select from. The candidates receiving the majority of the votes were given six-year terms; while the other candidates were given four and two-year terms respectively. The FRC has been working with the Board to provide a long-term road map for the implementation of the District's priorities supported by a multi-year budget.

New Superintendent Named

One of the first priorities of the newly elected Board was to conduct a search for a new superintendent. The Board hired an outside talent agency to conduct a nationwide search. Seventy-five candidates applied for the position. The initial screening process conducted by the talent agency narrowed this group to three finalist. After conducting a public interview process, the Board instructed the District to start contract negotiations with Dr. Nikolai Vitti. Dr. Vitti's contract was reviewed and approved at the May 22nd FRC meeting as required by MCL 141.1636(6). Dr. Vitti comes from Jacksonville Florida where he served as the superintendent of Duval County Public Schools (DCPS). DCPS currently has over 125,000 students, 150 schools and over 8,000 employees.