

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** August 15, 2008  
**TO:** Members of the Michigan Senate  
**FROM:** Gary S. Olson, Director  
**RE:** Detroit Public Schools Enacted Budget

On August 4, 2008, the Senate Fiscal Agency (SFA) transmitted to your office a memorandum outlining the current financial status of the Detroit Public Schools (DPS). That memorandum was written in response to the numerous questions that the SFA received regarding the financial status of the DPS when the Senate approved the FY 2008-09 K-12 School Aid appropriation bill on July 24, 2008.

The August 4, 2008 SFA memorandum pointed out that the DPS had approved a fiscal year (FY) 2008-09 budget on June 30, 2008, but that details of the budget had not yet been released to the public. The DPS did release details of the FY 2008-09 budget plan on August 6, 2008. The following information provides a summary of the FY 2008-09 enacted DPS budget.

Table 1 provides a high level summary of the enacted FY 2008-09 budget compared to the current estimates of projected final revenues and expenditures for FY 2007-08. The fiscal year for the DPS begins on July 1 of each year. The numbers contained in Table 1 are the General Fund budget for the school district and will not include certain revenues and expenditures related to capital improvements and funding as a result of the sale of capital bonds.

The enacted FY 2008-09 General Fund budget, based on the revenue and expenditure assumptions included in the budget, will result in a \$104.7 million deficit at the close of FY 2008-09. This will be a reduction of \$10.0 million from the projected budget deficit at the close of FY 2007-08. The DPS budget document contains a discussion involving the continuation of revenue assumptions and expenditure reductions into the FY 2009-10 budget that will lead to a projected FY 2009-10 year-end balance of \$2.6 million. However, the budget adopted by the DPS only pertains to FY 2008-09.

On the revenue side of the FY 2008-09 General Fund budget ledger, the budget assumes total current year revenues of \$1.12 billion. This represents a \$115.0 million or a 9.3% decline from the estimated level of FY 2007-08 current year revenues. Factoring in the \$114.7 million deficit carried forward from FY 2007-08 leads to total available FY 2008-09 revenues of \$1.0 billion. This represents a decline of \$236.9 million or 19.1% from the prior fiscal year.

On the expenditure side of the FY 2008-09 General Fund budget ledger, the budget assumes total expenditures of \$1.1 billion. This represents a decline of \$242.8 million or 18.0% from the prior fiscal year. This large decline is necessary as the budget reduces expenditures in an effort to bring expenditures in line with declining revenues resulting from significant pupil declines.

The budget plan includes large spending reductions in all aspects of the DPS budget. This includes instructional and instructional support services, general support services, administration, operation and maintenance, transportation and other expenditure categories.

**Table 1**  
**Detroit Public Schools**  
**Summary of Adopted FY 2008-09 General Fund Balance**  
**(millions of dollars)**

	FY 2007-08 Projections	FY 2008-09 Enacted Budget	Dollar Difference	Percentage Change
Balance from Prior Fiscal Year	7.2	(114.7)	(121.9)	N/A
<b>Current Year Revenues:</b>				
Local Sources	119.1	100.4	(18.7)	-15.7%
State Sources	814.6	746.5	(68.1)	-8.4%
Federal Sources	218.9	199.5	(19.4)	-8.9%
Other Financing Sources	<u>77.9</u>	<u>69.1</u>	<u>(8.8)</u>	<u>-11.3%</u>
Total Current Year Revenues	1,230.5	1,115.5	(115.0)	-9.3%
<b>Total Revenues (Including Prior Year Balance)</b>	<b>1,237.7</b>	<b>1,000.8</b>	<b>(236.9)</b>	<b>-19.1%</b>
<b>Expenditures:</b>				
Classroom Instruction	731.6	650.1	(81.5)	-11.1%
Support Services	175.5	158.5	(17.0)	-9.7%
Administration	133.9	106.4	(27.5)	-20.5%
Operation and Maintenance	165.3	109.2	(56.1)	-33.9%
Transportation	57.8	26.0	(31.8)	-55.0%
Other Expenditure Categories	<u>83.6</u>	<u>54.7</u>	<u>(28.9)</u>	<u>-34.6%</u>
Total Expenditures	1,347.7	1,104.9	(242.8)	-18.0%
<b>Revenues Less Expenditures</b>	<b>(110.0)</b>	<b>(104.1)</b>	<b>5.9</b>	<b>N/A</b>
<b>Fund Transfers/Other Adjustments</b>	<b>(4.7)</b>	<b>(0.6)</b>	<b>4.1</b>	<b>N/A</b>
<b>Year-End Fund Balance</b>	<b>(114.7)</b>	<b>(104.7)</b>	<b>10.0</b>	<b>N/A</b>

**Source:** Senate Fiscal Agency calculations from Detroit Public Schools 2009 Adopted Budget.

The key factor in analyzing any approved budget is understanding the assumptions behind the numbers contained in the budget. The following information provides a discussion of several of the key assumptions that the FY 2008-09 DPS budget is based on.

**Pupil Memberships:** As was pointed out in the August 4, 2008 SFA memorandum, the DPS has been losing pupils at a rapid rate in recent years. During FY 2007-08, the DPS pupil memberships declined by 11,116 pupils to 106,485. The FY 2008-09 DPS budget assumes a pupil membership of 98,356 or a decline of 8,129 pupils. The consensus pupil membership estimate for the DPS agreed to at the May 2008 consensus revenue estimating conference projects the FY 2008-09 DPS pupil membership at 96,194. This is a difference 2,162 pupil memberships or approximately \$16.5 million of State foundation allowance funding.

**Foundation Allowance:** The DPS budget was approved before the State finalized the FY 2008-09 State School Aid appropriation bill. The DPS budget assumes a FY 2008-09 per pupil foundation allowance of \$7,627. The actual foundation allowance funded by the State was \$7,660. This difference will provide approximately \$3.2 million of additional State revenue not assumed in the budget.

**Classroom Instruction:** The DPS budget assumes \$59.2 million of General Fund/General Purpose (GF/GP) savings from the layoff of 818 teaching positions in the district. This is the projected savings from GF/GP funded positions and does not include savings funded from grants, adult education or special education. The layoffs of 818 teachers will represent a reduction of approximately 12.0% of the teachers in the district. While these teacher layoffs are assumed in the budget, the actual layoffs have not yet taken place. Notices of the potential layoffs of 300 teachers were sent out on April 1, 2008. The layoff notices for the remaining 518 teachers have not yet been distributed. As of August 13, 2008, it does not appear that any teaching positions have been eliminated through the layoff process. The actual number of teacher layoffs and the timing of these layoffs is a critical assumption in the budget. Reductions in the number of assumed teacher layoffs or delays in the timing of these layoffs will result in unfunded expenditures in the budget.

**Other Employee Reductions:** The DPS budget assumes \$87.8 million of GF/GP savings from the layoffs of 900 non-teaching positions in the district. This includes support staff, administrative staff, maintenance staff and transportation staff. The layoffs of these employees will represent a reduction of approximately 13.5% of these positions in the district. The DPS is currently attempting to begin the implementation of these layoffs. The school district is studying the required time frames of notifying employees of the layoffs and attempting to assess the impact of the layoffs on the operations of the district. To date, none of these 900 employees have been laid off. The actual number of non-teacher layoffs and the timing of these layoffs is a critical assumption in the budget. Reductions in the number of assumed layoffs or delays in the timing of these layoffs will result in unfunded expenditures in the budget.

**Union Concessions:** The DPS budget assumes \$12.3 million of savings from employee concessions. The DPS is currently in discussions with several of the labor unions representing DPS employees. The employee concessions could include wage or benefit concessions jointly agreed to by the DPS and the labor unions. The labor unions have not yet agreed to the employee concessions assumed in the budget. The fact that these \$12.3 million of employee concessions are assumed in the budget could lead to unfunded expenditures if the concessions are not realized.

**Other Major Expenditure Reductions:** The DPS budget assumes \$40.0 million of savings from a reduction in the purchases of supplies, purchases of services, purchases of equipment and travel costs. This assumption is a major reduction for the district and it is unclear as to the impact of the reduction on the operation of the district. The budget details include a 48.2% reduction in the level of teaching supplies and textbooks. If this assumed \$40.0 million of savings is not realized, there will be unfunded expenditures in the budget.

The FY 2008-09 DPS budget includes very aggressive assumptions concerning expenditure reductions in the district. These reductions are necessary if the DPS is going to achieve the stated goal in the FY 2008-09 budget of balancing projected revenues and expenditures at the close of FY 2009-10. The major concern regarding the DPS budget should be the

implementation of these assumed expenditure reductions. Since the 2008-09 school year already began on July 1, 2008, any delay in implementing these expenditure reductions could lead to a much larger FY 2008-09 year-end deficit than the \$104.7 million assumed in the budget.

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c: Ellen Jeffries, Deputy Director