

McTevia Tells Detroit Free Press that Detroit Public Schools have few options to avoid bankruptcy.

Bankruptcy considered for DPS

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The Detroit Public Schools may have no choice but to file for Chapter 9 bankruptcy, which would make it the first big-city school district to use bankruptcy court to avoid paying millions to vendors, employees and bondholders, experts said today.

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DPS Emergency Financial Manager Robert Bobb is continuing to consider the option and met today with retired U.S. Bankruptcy Judge Ray Reynolds Graves.

Jim McTevia of McTevia & Associates of Bingham Farms, which works with companies with serious financial troubles, said DPS has three choices to solve its projected \$259-million budget deficit: raise more money, cut costs or declare bankruptcy.

More revenues are extremely unlikely, given DPS's projected enrollment decline of 12,000 students and anticipated state funding cuts. McTevia estimated DPS would have to cut its costs as much as 50%, an almost impossible feat given that more than 80% of most school district costs are salaries and benefits mandated by contracts.

Bobb, a state appointee who took charge of the DPS budget in March, was not able to balance the 2009-10 budget, which totals about \$1.2 billion and calls for \$21.8 million in debt service payments on bonds sold to eliminate past deficits.

"He's got his hands full in an economy that's just terrible, in a school system where the municipality and surrounding areas are facing economic problems like they haven't faced since the Great Depression. ... I don't see anything on the horizon that's going to change those facts," McTevia said..

"They're going to have to reduce their debts, and the only vehicle is through the court system," McTevia said.

A bankruptcy filing could reduce the amount DPS will pay vendors and bondholders. It also could allow a

judge to rule on DPS's requested changes to employment contracts, McTevia said.

DPS spokesman Steve Wasko said in an e-mail that the bankruptcy meeting had nothing to do with the district's unions, which have threatened to take the district to court over the timing of recent layoffs.

District officials met with a bankruptcy attorney two weeks ago. That meeting, too, was "to gather information," district officials said.

No school district in Michigan has ever filed for bankruptcy, according to the Michigan Department of Education. Nor has any large school district nationwide, according to the Washington-based Council of the Great City Schools, an association of 67 of the nation's largest school districts.

"This would indeed be unprecedented," said Henry Duvall, a council spokesman.