

Schools

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DPS shows first budget surplus since 2007

Spending cuts, federal help boost numbers, but district not out of woods

Jennifer Chambers/ The Detroit News

After years of ever-growing deficits, Detroit Public Schools broke into the black during the past school year, with a \$43 million surplus, the district said Monday.

A 10 percent enrollment drop, federal stimulus money and belt-tightening measures allowed the district to reduce spending by \$98 million in 2010-11.

But even as Emergency Manager Roy Roberts announced the district's first surplus since 2007, the Michigan Department of Education warned that the district could slip back into the red this year.

"DPS continues to have a substantial budget deficit and current monthly reports indicate this year's deficit is continuing to grow," department spokeswoman Jan Ellis said Monday.

This year, still in receivership and under state control, DPS slashed its deficit from \$327 million to a projected \$84 million, primarily through a \$244.9 million bond sale completed last month.

Announcing the surplus for last school year, Roberts acknowledged that DPS still has a lot of work to do.

"I'd love to tell you the war is won. The war is not won," Roberts said. "Detroit Public Schools is a \$1.2 billion business that needs to be run like a business. If you don't run it like a business, you will be in a horrible position."

According to documents filed with the state, by Sept. 30 DPS projected it would spend \$93 million more than it budgeted this school year in classroom instruction. The district had to hire more teachers for higher-than-expected enrollment this fall and had to cover other costs, such as summer school.

DPS officials on Monday disputed the \$93 million figure, saying it's outdated and does not reflect \$45 million in vacant positions. When reconciled, the overage for instruction will be closer to \$30 million, DPS spokesman Steve Wasko said.

Roberts focused on the district's improved financial condition, which resulted in part from an increase in federal aid from the previous school year — including \$45 million from stimulus funds, \$35 million from Title II grant funding and \$51 million from Title I funding.

This budget year, DPS is not getting any stimulus funds because the program expired.

"We are not going to get a whole bunch more money. ... We are going to have to do the job with the resources we have," said William Aldridge, DPS' chief financial officer.

Aldridge said DPS still has about "half a billion" in debt obligations related to the district's two bond sales — one in 2005, when the district borrowed close to \$210 million to avoid bankruptcy, and the \$245 million it owes from last month's bond sale.

The recent bonds, sold at an interest rate of 4.7 percent, will be paid off during the next 10 years, essentially deferring a large chunk of the district's deficit.

For the district's capital projects, including a number of new and renovated schools funded through a \$500.5 million construction bond passed by voters in 2009, DPS owes \$2 billion, Aldridge said.

Search for revenue

State education officials said they will continue to closely monitor the financial health of DPS.

"We want to make sure that financial integrity is maintained through this school year and into the future," Ellis said.

James McTevia, a national turnaround specialist based in Bingham Farms, said he gives DPS kudos for selling the bonds in a tough market and getting a lower interest rate that will save the district \$6 million on its debt service.

But without replacing the stimulus funds with some other revenue, DPS will have a tough time keeping its head above water.

"At least for (last) year, they are operating in the black. Next year is an entirely different year. If stimulus money was part of the revenue, then it begs the question: are they going to be able to do it next year?" McTevia said.

Aldridge, who started Oct. 1, said the district is implementing a plan to improve the integrity of financial information at DPS, where a lack of policies has allowed employees "to make it up as they go along," he said.

The district also plans to use zero-based budgeting, which requires managers to justify every dollar allocated to them, and benchmarking with private sector organizations to adopt practices that work.

"DPS is changing. It's going to be a very dynamic environment that is coming around the corner," Aldridge said.

Union concerns

DPS has about 66,146 students this year, compared with about 168,000 in 2000. The district has lost students for years to suburban districts and charter schools.

Over the summer, Roberts imposed a 10 percent pay cut on all employees and required them to contribute more toward health care costs.

Mark O'Keefe, vice president of the Detroit Federation of Teachers, said the district's announcement of a surplus is good news but indicates that the 10 percent wage cuts were excessive.

"The cuts that were made in our contract helped them do that. We can see the results now show an over \$40 million surplus. Knowing that, it supports what we said in July (that) the cuts imposed on teachers were not necessary and not to that degree," O'Keefe said.

"They could have done half the cuts. We hope they reconsider the extent of those cuts," he said.

Roberts said the district remained in a "crisis" and that school closures, turning DPS schools over to charter operators and transferring DPS schools to the Education Achievement System are all still a part of DPS financial future.

O'Keefe said that concerns him because those changes could weaken the district's current financial position.

"When you lose schools, you lose funding and that will hurt the district's ability to continue to make these debt service payments," he said. "The district has shown the ability to run the school district at a profit or at a surplus. They should have the opportunity to let the things they've done continue to bear fruit before you dismantle the district."

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