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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff 

DATE: June 6, 2017

RE: Council member Sheffield's Inquiry on DPS funding related to the Pistons

Councilmember Sheffield requested that the Legislative Policy Division (LPD) review and report on the impact of the Detroit Pistons move to downtown to the Detroit Public School System.

Attached, please find our talking points on the issue.

Please contact us if we can be of any further assistance.

Attachment

June 6, 2017

Talking Points on impact of Pistons Project on DPS funding

Prepared by the Legislative Policy Division (LPD)

- Detroit Free Press article entitled “Detroit Pistons move to downtown nears, but is it a done deal?” dated June 5, 2017 indicated:
 1. “The DDA is expected to capture \$726 million in school property tax revenue through 2051. The money will be used to pay off the public investments — including bonds and interest — in the \$862-million arena and the surrounding development district.
 2. Detroit Public Schools Community District spokeswoman Chrystal Wilson said that the new school district does not levy taxes and receives full funding from the state. The capture would impact the former DPS district, which is millions of dollars in debt.
 3. ‘DPS pays operating and capital debt and will not be able to collect taxes in the arena area (Catalyst Project) until the bonds issued for the project are paid in full,’ Wilson said in an e-mail.”
- LPD essentially agrees with Ms. Wilson’s comments but would add the following for clarification:
 - a. Effective July 1, 2016, the Michigan Legislature approved a set of bills (PA 192-197 of 2016) to restructure Detroit Public Schools (DPS). The bills essentially split the School District into two entities: Detroit Public Schools (old DPS) and the Detroit Public Schools Community District (new DPS).
 - b. The “full funding from the state” to the new DPS the Free Press article alluded to for the purposes of providing the daily operations of the schools, including student education, is from the State’s School Aid Fund, per PA 193 of 2016¹.
 - c. The level of funding from the School Aid Fund to the new DPS is based on the full per pupil foundation allowance (\$7,552 per pupil for FY 2016-17²) and is not impacted by tax abatements.

¹ It is important to note that the State Treasurer estimated an amount of \$705 million in outstanding DPS operating debt, comprised of \$415 million in accumulated operating deficits, \$150 million to finance past obligations and start-up costs and cash flow issues for the new DPS, and \$140 million in interest and bond costs.

As a result of PA 193 of 2016, the School Aid Fund no longer receives the school property taxes based on the school operating mills (18 mills on non-homestead property) since the old DPS captures these mills to pay off the outstanding operating debt. To keep the School Aid Fund “whole”, PA 193 of 2016 requires the usage of \$617 million in tobacco settlement revenue deposited into a Community District Education Trust Fund to keep the School Aid Fund whole. Any amount of operating debt above \$617 million is covered by the State’s General Fund to support the School Aid Fund.

² Student enrollment for DPS for FY 2016-17 is 45,237. The amount is 46,319 for FY 2015-16.

- d. The old DPS will continue to levy school operating mills (18 mills on non-homestead property) to pay off operating debt³ and levy school debt mills (13 mills on homestead and non-homestead property) to pay off capital debt⁴. It is anticipated that the operating debt will be paid off within 10 years. It is anticipated that capital debt will be paid off within 30 years.
 - e. If the old DPS was able to collect incremental school property taxes captured by the DDA over the life of the DDA bonds (approximately 30 years) and abated school property taxes through other tax incentives such as the brownfield redevelopment act, the old DPS debt would be paid off quicker.
 - f. However, PA 396 of 2012 allows the DDA to capture incremental school property taxes to pay off bonds associated with a Catalyst Project costing at least \$300 M. Once the bonds are paid off, the DPS would be able to collect the incremental school property taxes.
 - g. The old DPS ceases to exist once it pays off its operating and capital debts. When the operating debt is paid off within 10 years, the new DPS will levy the school operating mills and is funded through the School Aid Fund through the per pupil allowance formula. Any reduction in school operating property taxes due to tax abatements is covered by the School Aid Fund, as was the case prior to the split of DPS into two entities starting July 1, 2016.
- It should be noted whenever the students from the Education Achievement Authority (EAA) are added to the new DPS, the School Aid Fund would pay an additional contribution to the school system based on the number of additional students coming in from the EAA⁵.
 - It is also important to note that the Financial Review Commission oversees the operations and finances of the new DPS (PA 192, 195 of 2016).

³ See footnote 1 for the estimated amount of outstanding operating debt owed by the old DPS.

⁴ Per DPS's 2016 CAFR, the school district had approximately \$1.4 billion in outstanding capital debt (principle only) as of June 30, 2016. With interest, outstanding capital debt amounts to approximately \$2.1 billion as of June 30, 2016.

⁵ According to a Detroit Free Press article entitled "Detroit district gets money to bring back state's EAA schools" dated April 5, 2017, the EAA currently has approximately 6,000 students enrolled in its schools. It should also be noted that PA 192 of 2016 dissolved the EAA.