Testimony of Robert C. Bobb
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Joint House and Senate Education Committee
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Good morning Chairman Pavlov, Chairman Scott, House and Senate education committee members, staff and guests. I am Robert C. Bobb and I serve as the Emergency Financial Manager for the Detroit Public Schools. I am pleased to be here this morning along with DPS Chief Academic and Accountability Auditor Barbara Byrd-Bennett. I am thankful for the invitation to testify here this morning and I look forward to a robust conversation about the state of the Detroit Public Schools.

Ms. Byrd-Bennett has a long and successful career in urban public education, particularly in inner urban school districts. She led three urban US districts including overseeing a turnaround district within the New York City Public Schools and received the 2001 Council of Great City Schools Urban Superintendent of the Year award. Ms. Byrd-Bennett has also served as a national leader on several high profile education boards including the National Assessment Governing Board, which oversees the content of the National Assessment of Educational Progress, the Urban Superintendents Association of America where she served as President, and she co-chaired the national innovation fund.

I am here today for two reasons. First, I will discuss the need for urgent action on the part of the House and Senate Education Committees with respect to proposed Bond Security Legislation that DPS has put together. Second, I am going to detail the financial and academic conditions that existed within the Detroit Public Schools when I arrived in March 2009 and what we have done to tackle these challenges.

DPS has an urgent need for Bond Security Legislation that will help the district borrow for immediate short term cash flow needs in March 2011. As you may be aware, the Detroit Public Schools signed a covenant with the insurer of a long term borrowing that the district undertook through the State in 2005. As a part of that borrowing the [State and the] district gave Financial Security Assurance (FSA), now Assured Guaranty Municipal Corp. (Assured), the right to sign off on future short term cash flow borrowings that the district would have to undertake. The district's current cash flow situation necessitates that the district borrow two times a year for cash flow purposes – once in March and once in August. This March the district will once again have to engage in a short term borrowing in order to make payroll, and in order to do so must obtain Assured's waiver to proceed with the borrowing.

Because of all the national headlines raising concerns about municipal and school district bankruptcies, Assured is looking to protect the DPS debt it insures from a potential filing even though the district has no plans to engage in such an action. We have seen firsthand the impact on the district's borrowing costs that investor concerns can have—in 2009, when we were in the throes of difficult labor negotiations, the interest rate on our one year note went from below 5% to 9.5%--tax exempt. This translated to a $10 million increase in our cost of borrowing.

We believe that securing Assured's waiver this March will be difficult if the Legislature does not take swift action on the legislative proposal that was put together to address Assured's concern. The proposal, put together by my team, would insulate Assured, and other investors in school district cash flow borrowings, from the impact of a Chapter 9 Bankruptcy filing, and will help to ensure that the debt service on the 2005 long term refinancing that DPS engaged in will continue to be paid by the school district. In addition, this legislative proposal, if enacted, will prevent a doubling up of the debt service on the 2005 long term refinancing (from $22 million a year to over $39.3 million a year), thus further complicating the district's cash flow needs. This is Assured's back-up position. I urge the legislature to take swift action on this proposal, which will have a positive benefit not just for the Detroit Public Schools, but for the more than 300 other Michigan school districts which borrow each year to manage their cash flow needs.

The legislation would apply only to school district obligations backed by state aid which are issued to fund cash flow needs under one section of the school code. Additionally, enacting this legislation will not cost the State one dime. This legislation is not a request for a cash infusion in any way. And this legislation does not in any way ask for the school district's debt burden to be shifted to the State. I ask both the House and Senate Education Committees to swiftly act on our proposed Bond Security Legislation.

When I assumed the position of Emergency Financial Manager, I made a commitment to do what I believe to be in the best interest of children. As a former elected official and President of the Washington, DC School Board, the former President of the Washington, DC State Board of Education, and a product of the Broad Foundation's Urban Superintendent's Academy, I know that the financial and academic operations of a school district are inextricably tied together. The two cannot be decoupled. As a result, our work to transform the Detroit Public Schools has presented a dual challenge - reform aggressively the legacy and structural financial deficit, cut non-critical spending and redefine our "core mission" by creating a more agile system of schools with increased flexibility, creditability and accountability on the one hand - and invest in the future of our children by focusing on 21st century teaching and learning for every child on the other hand.

The financial crisis faced by the Detroit Public Schools is not one that appeared overnight. Since 2000 the school district ran a deficit every single year except 2002 and 2005 when the district engaged in a long term refinancing of its debt. Every other year in that time period resulted in overspending. By the end of fiscal year 2008, the district's deficit had grown to $139.7 million. When I arrived in March 2009 we restated the deficit at $305 million for the general purpose fund. As a result, I took several immediate steps to reduce the restated general purpose fund deficit including implementing a hiring and spending freeze and reducing non-essential personnel from the general fund. At the end of the 2009 fiscal year, the actual audited deficit had been reduced to $219 million.

The approved budget for FY 10 was initially balanced by reducing over $548 million in spending requests out of the budget. However, the deficit for FY 10 grew as a result of an unanticipated decline in revenue including:

- A $7 million property tax charge back;
- An $11 million reduction in state aid loss due to property tax collections;
- The loss of $8 million in state aid due to a reduction of 1407 FTEs for which we were providing an education;
- The loss of $9 million toward the end of our fiscal year as a result of the state's early retirement incentive program; and
- The addition of positions that were necessary for the operation of our schools.

As a result of these and other conditions, the district's deficit at the end of FY2010 had grown to $327 million. This deficit exists exclusively on the general purpose fund, which for FY 2011 was $558.1 million.

The struggle to reduce DPS' legacy deficit and address the structural issues that have plagued the system for many years remains. Many factors have contributed and will continue to contribute to the school district's legacy deficit including:

- A decline in student enrollment of 83,336 students in the last decade representing a decline of more than 50% and at a rate that is much higher than the loss in population within the City of Detroit;
- A related decline in state aid of more than $573 million since 2000 alone;
- A cash flow situation that necessitates the district borrowing two times a fiscal year; and
- High property tax delinquencies in the City of Detroit including a projected 83% property tax collection rate in the city for FY11, which will result in the district receiving $273.87 less per pupil than the state foundation funding amount of $7660.

In addition, the district's general fund budget is strapped with a number of fixed costs that must all be assumed by the general purpose fund. These fixed costs include:

- $55 million in principal and interest payments on short and long term borrowings that the district has engaged in over the last several years;
- $52.6 million in employee pension costs;
- $44.6 million in health care costs (health and pension costs alone represent 17% of the general purpose fund);
- $26.8 million in utilities;
- $6.6 million in public safety;
- $3.5 million in unemployment; and
- $9.9 million for school closures (assumes 30 school closures).

As a result of these and other fixed costs only $359 million out of $558 million remains to provide the basic educational services for the students of the Detroit Public Schools.

In addition to the budget challenges that we face, we found several operational challenges

on the ground when I arrived in March 2009 that impacted the financial condition of the school district. We could not make payroll. We were not meeting our obligations to the state pension system. We were not paying our vendors, which resulted in the district being placed on credit watch. We were in danger of not being able to provide transportation services to our students because of a dispute with a fuel vendor. And the district was steeped in a rampant culture of waste, corruption and abuse. As a result, I took several immediate actions in order to provide some stability to the district. I requested and secured advances in state aid for March, April and May of 2009 in order to ensure that the district could meet its payroll obligations. I paid out $47.6 million in past due payments to the Michigan Public School Employee Retirement System and the district has not missed a payment since. In addition, I paid all of our vendors whose outstanding bills were 90 days or older, which took us off of credit watch with a number of our vendors. I also created a strong Inspector General's Office to investigate and audit waste, fraud or abuse. The Office of the Inspector General (OIG) has opened 382 investigative cases, 73% or 280 of which have been closed. To date 39 cases have been referred for disciplinary action, resulting in 25 employee suspensions, 11 employee terminations and numerous other administrative actions. 25 search warrants have been executed. 39 cases were referred to the Wayne County Prosecutor, and nine to the U.S. Attorney's Office. There have been 18 convictions.

I also created a strong internal auditor general to dramatically improve and constantly monitor the internal controls across the organization. Since its inception in March 2009, the Office of the Auditor General (OAG) has conducted 220 audits and 29 investigations. The audits helped to strengthen internal controls for cash management and improved operations in food services, finance, athletics, payroll and public safety.

To bring spending in line we closed 59 schools over two years, reducing over 4.1 million square feet of facility space and lowering net annual operating and staff expenses by over $37 million. We also reduced 3,552 employees – 26.5 percent of the total DPS workforce from our general fund employment rolls since I arrived in 2009. We reached an agreement with the Detroit Federation of Teachers that makes a tremendous investment in a host of educational reforms and with most of our other collective bargaining units saving the District over $232.9 million through 2013. This includes a restructuring of health benefits for most of our 15 collective bargaining units, which saved the district $45 million over the next two fiscal years.

As a result of managed competition I took several steps to privatize several operational functions in order to generate savings for the Detroit Public Schools. I have privatized 232 DPS security officer jobs for an annual savings of $4 million. I have privatized 384 transportation jobs for a savings of $8 million a year for five years including $4.8 million in one-time savings for the sale of our bus fleet. And just last week I announced the privatization of 823 custodial, engineering and trades jobs for a savings of $14,421,436 a year over 5 years including one-time savings of $2 million for payouts of sick and vacation time, $840,685 for the sale of vehicles and equipment and $158,294 in annual rental revenue over or $791,000 over the next 5 years.

In November 2009, I, my team, and members of the community campaigned for and Detroit voters approved by a 61-39 percent margin proposal S, which is allowing the Detroit Public Schools to build 7 new schools and modernize 11 schools by taking advantage of $500.5 million in stimulus dollars that President Barack Obama made available to build and modernize schools. We now have contracts in place for every single project - one of which has already been completed – and we are on budget and on schedule to complete the remaining projects as planned by 2012.

One of our most significant achievements since we arrived in March 2009 has been the development of our long term plan for teaching and learning and we have made significant investments that are aligned to this plan using our federal Title dollars. This plan came about as a result of an extensive audit of the academic operations of the school district. The purpose of the audit was to identify areas of deficiency so that we could better maximize our financial resources and enhance operational efficiency. When we arrived in Detroit in 2009 we discovered the following with respect to our academic programs:

- Instructional programs lacking coherence, rigor and relevance for the 21st century;
- Historic trends with students not able to meet minimum competencies as measured by MEAP and NAEP;
- Failure to use data to inform teaching and learning;
- Professional development as a catalogue of voluntary course offerings not designed for meaningful improvement of adult skills and student learning;
- Poorly designed and inappropriately implemented reform initiatives;
- Academic programs defined by commercial products and textbooks;
- Teachers with the least experience and expertise assigned to students with greatest needs;
- No design, plan or coordinated strategy for pipeline development of human capital to support a comprehensive academic plan;
- Disproportionate numbers of African American students enrolled in special education classes; and
- To a large extent everyone "doing their own thing."

As a result of these deficiencies, we developed a comprehensive and strategic academic investment plan for 21st century teaching and learning.

This academic plan has guided us in achieving a number of significant successes. As previously stated, we renegotiated a labor contract with the Detroit Federation of Teachers that incorporates a new teacher evaluation system as a core function of our system where for the first time in DPS, 40% of a teacher's evaluation will be based on student performance outcomes. The contract also includes a system of peer assistance and review, a comprehensive professional development plan, shared decision making, school based bonuses and a system of priority schools where the district can insulate identified schools from some of the traditional contractual obligations such as bumping.

Additionally, using our federal Title 1 dollars we were able to establish extended day at each prek-8 school and mandatory extended school year for 35,000 students. We required 120 minute reading and mathematics blocks in grades k-8, and double block requirements for English and mathematics at the high school level. We have expanded dropout prevention, credit recovery, and second chance programs at the high schools - resulting in over 1000 additional graduates last school year alone. We have established and expanded advanced placement classes at each high school, required pre-algebra for all 7th grade students and expanded ACT and SAT preparation courses. We assigned executive coaches to our principals and most recently we assigned literacy, mathematics and technology coaches to each of the district's 142 schools using our Title 1 resources.

My team continues to work on several options for addressing the legacy deficit of the Detroit Public Schools. One of the most widely publicized options has been the deficit elimination plan for DPS. The plan calls on the district to close an additional 70 schools – reducing the number of facilities in the district by half in two years, increase class sizes to over 60 at the high school level beginning next school year, having regional principals with no assistant principals, consolidating services with the City of Detroit and Wayne County and eliminating all general education transportation among other actions. Under the currently approved plan, these actions must all be completed and fully implemented beginning next fiscal year and concluding by 2014.

Let me be clear. Taking these actions is the only way that DPS will "cut its way out" of the legacy deficit situation that it finds itself in today. While some of these actions need to be taken in part, I do not believe that this is a viable plan for the school district and it will in fact drive more students away, thus further exasperating the financial emergency of the school district. As a result, my team has put alternative proposal concepts together that will drive the deficit down over time. My team does not have a monopoly on ideas, however, and we are open to any and all ideas that will help solve the deep financial issues that we face.

I am very appreciative of the invitation to appear before you today. I would again ask that the House and Senate Education Committees take up the proposed Bond Security Legislation that I discussed earlier in my testimony, and I and Ms. Byrd-Bennett look forward to answering any questions you may have.