

MEMORANDUM



DATE: February 11, 2016
TO: House Appropriations Committee
FROM: Kyle I. Jen, Deputy Director
Bethany Wicksall, Associate Director
RE: Detroit Public Schools Funding Plan

The FY 2016-17 Executive Budget Recommendation includes a funding plan to address the financial situation of Detroit Public Schools (DPS). This memorandum provides a brief overview of how that plan would be funded.

FY 2015-16

\$50.0 million GF/GP would be appropriated in the Treasury budget through a supplemental appropriations bill for direct payment to DPS for short-term support of daily operations.

FY 2016-17 and Beyond

\$72.0 million of tobacco settlement revenue would be transferred each year, for a period of 10 years, to a newly created Detroit Public Schools Trust Fund under the Michigan Trust Fund Act. Those funds would then be appropriated from the new fund annually in the School Aid budget to backfill revenue from Detroit's 18-mill levy that would be utilized to pay down debt over time (by the "old" district) and would, therefore, no longer be available to support the new district's foundation allowance. The estimated total debt would include approximately \$515.0 million in accumulated operating deficits as well as \$200.0 million to finance start-up costs and school building reinvestment for the new district.

The \$72.0 million per year in tobacco settlement revenue transferred to the new trust fund would lower the amount of revenue available for appropriation from the Merit Award Trust Fund.¹ The funds would effectively be made available as follows:

FY 2016-17

- \$48.7 million from the current balance available on a one-time basis
- \$23.3 million from a reduction in tobacco settlement revenue appropriated for the Medicaid program, to be backfilled with an equal amount of GF/GP funds²

FY 2017-18 and beyond

- \$24.6 million from a projected increase in the base payment from tobacco manufacturers and the end of a settlement credit being paid under the 2013 arbitration settlement of a longstanding enforcement-related dispute with the manufacturers
- \$47.4 million from reduction in tobacco settlement revenue appropriated for the Medicaid program (compared to the FY 2015-16 level), to be backfilled with an equal amount of GF/GP funds³

¹ The original Merit Award Program was subsequently altered to become the Promise Grant Program, which was then defunded beginning in FY 2009-10. Major appropriations from the Merit Award Trust Fund are now for funding items in the Health and Human Services budget that would otherwise be funded by GF/GP revenue.

² The total reduction would be \$23.7 million due to unrelated adjustments in tobacco settlement revenues and expenditures.

³ The total reduction would be \$47.7 million due to unrelated adjustments in tobacco settlement revenues and expenditures.

An attached table shows current and projected tobacco settlement revenues and expenditures under the Executive Recommendation.

Please don't hesitate to contact us if you have questions about this information.

Attachment

Tobacco Settlement Revenue and Expenditure Projections

Based on FY 2016-17 Executive Recommendation

Millions of \$

	FY 2015 Final	FY 2016 YTD	FY 2017 Exec Rec	FY 2018 Projected	FY 2019 Projected
Payment due from manufacturers	\$281.8	\$285.2	\$283.9	\$295.3	\$293.8
Arbitration settlement-related credits to manufacturers	(30.2)	(22.8)	(21.1)	0.0	0.0
Assumed withheld payments after arbitration settlement expires	<u>0.0</u>	<u>(8.5)</u>	<u>(8.5)</u>	<u>(8.5)</u>	<u>(8.5)</u>
Net Receipts	\$251.6	\$253.9	\$254.3	\$286.8	\$285.3
Securitization debt service payments (24.11% of net receipts)	(\$60.7)	(\$61.2)	(\$61.3)	(\$69.1)	(\$68.8)
Transfer to 21st Century Jobs Fund (sunsets after FY 2019)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)
Repayment to Budget Stabilization Fund for City of Detroit settlement payment	(17.5)	(17.5)	(17.5)	(17.5)	(17.5)
Proposed transfer to Detroit Public Schools Trust Fund	<u>0.0</u>	<u>0.0</u>	<u>(72.0)</u>	<u>(72.0)</u>	<u>(72.0)</u>
Net Revenue to Merit Award Trust Fund (MATF)	\$98.4	\$100.2	\$28.5	\$53.1	\$52.0
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MATF Beginning Balance*	\$75.2	\$61.2	\$48.7	\$0.0	\$0.0
Interest	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
MATF Resources Available	\$173.7	\$161.4	\$77.3	\$53.3	\$52.1
MATF Expenditures					
Medicaid (DHHS)	\$64.3	\$64.3	\$40.6	\$16.6	\$16.6
Family Independence Program (DHHS)	30.1	30.1	30.1	30.1	30.1
Aging Respite Care (DHHS)	4.1	4.1	4.1	4.1	4.1
Financial aid administration (Treasury)	0.9	1.1	1.2	1.2	1.2
Criminal investigations/IT (State Police)	0.8	0.8	0.8	0.8	0.8
Operations (Attorney General)	0.5	0.5	0.5	0.5	0.5
Venture Michigan Fund tax voucher repurchase (DTMB)	<u>11.9</u>	<u>11.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL	\$112.5	\$112.8	\$77.2	\$53.2	\$53.2
MATF Ending Balance	\$61.2	\$48.7	\$0.0	\$0.0	(\$1.1)

*Current balance available due to 2013 balloon payment from manufacturers to state under arbitration settlement.