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Day of Reckoning Near as Detroit Schools Pushed to Fiscal Brink.

When Roosevelt Bell's daughter Roshauna left Detroit's Cooke Elementary for a charter school, she joined an exodus that sent the district's finances into free fall. Every student that leaves costs \$7,434 in state aid. In the past decade, it's lost 84,000.

"The school was really raggedy," said Bell, a 58-year-old carpenter who pulled Roshauna out four years ago because of over-crowded classrooms and a building in need of repair. "The kids had to wear their coats in the classrooms."

More than a year after Detroit emerged from a record-setting bankruptcy, cutting its debt in an effort to revive from a decades-long population decline, the independent school district is still flirting with insolvency. In February, the amount of state aid that's siphoned off by debt will jump to roughly what is spent on salaries and benefits, and it may run out of cash in April. This week, the frayed finances sparked a staff revolt: More than half the schools closed Monday after teachers called in sick to protest dilapidated conditions.

"It's not sustainable," said Hetty Chang, a vice president with Moody's Investors Service, which rates the district's bonds Caa1, seven steps below investment grade, lower than any other U.S. public-school system. If nothing happens soon "they will run out of money."

Detroit isn't alone, with many urban school systems struggling, including Philadelphia's and Chicago's. But nowhere has the financial pain been as acute or persistent as in Detroit, where the long-running disappearance of automobile-industry jobs caused the biggest population decline ever seen in an American city, leaving much of it vacant. With fewer residents, enrollment in its schools has plunged 65 percent since 2006.

With about \$1.7 billion of outstanding bonds, the district has been run by a state-appointed emergency manager since 2009, a step aimed at keeping it out of bankruptcy. Republican Governor Rick Snyder last year proposed an overhaul that would keep its debt from crowding out classroom spending. Drawing on that plan, Republican state Senator Goeff Hansen Thursday introduced legislation that would effectively create two districts — one to pay off \$715 million of debt and another to run the schools.

"We have to get them back to solvent," Hansen said in an interview. "You can't have a robust, strong Detroit without having a good school system."

Governor's Priority

Dave Murray, a spokesman for Snyder, said providing a permanent fix for the schools is one of his administration's top priorities this year. Michelle Zdrodowski, a spokeswoman for Detroit's schools, didn't respond to phone and e-mail messages seeking comment.

To help close budget shortfalls, the district's reliance on short-term loans has grown. In September,

it sold \$121 million of notes that mature in August for a yield of 5.75 percent, about \$13 million more than it issued a year earlier. Because of that borrowing, the amount of state aid that goes to debt service will jump by 22 percent to \$26 million next month, according to disclosures made for the note offering.

“Things are looking rough, they’re coming to a head,” said Craig Thiel, senior research associate with the Citizens Research Council of Michigan, which released a report this month on the district’s debt. “The state sends its checks to the district after holding out money to repay short-term borrowings. Whatever is left is available to pay teachers, buy books and turn on the lights.”

Bondholder’s Shelter

That diversion of aid, which is a result of the control exerted by the state, has sheltered bondholders. A Detroit school bond maturing in 2029, one of its most active securities, last traded for an average yield of 2.9 percent in November, or 1.3 percentage points more than benchmark debt, according to data compiled by Bloomberg. That was down from about two percentage points in April.

“It’s upsetting to see the poor conditions of the Detroit school system, but as bondholders, we are largely insulated because of the strong support provided to the bonds by the state,” said Paul Mansour, the head of municipal research at Conning, which oversees \$11 billion of state and local debt, including some from Detroit’s schools. “Detroit public schools is not so much a concern over debt repayment, but it’s much more of an issue for the provision of services.”

To deal with the declining enrollment, the school system has eliminated almost 10,000 jobs since 2005 and closed more than 150 schools, helping reduce expenses by \$800 million. There are some signs of stabilization: Enrollment was down by just 1.7 percent in the current year, the smallest drop in at least a decade. Emergency Manager Darnell Earley said in a statement last month that the district is “making strides to address the serious financial challenges that have been plaguing it for decades.”

More than 60 schools were closed Monday because teachers called out sick during the protest over derelict conditions. By Wednesday, the number of closings dropped to at least five, according to the Associated Press.

The teachers are upset because of the worsening school conditions, including broken heaters, rodents, cracked ceilings and mold, said Margaret Weertz, a spokeswoman for the Detroit Federation of Teachers. She said the protest wasn’t condoned or organized by the union.

“The frustration level is very, very high,” Weertz said.

Irving Bailey, 51, felt it years ago. He pulled his 9th grade daughter out of John R. King Academic and Performing Arts Academy, worried about a lack of academic standards, and enrolled her in the Jalen Rose Leadership Academy, a charter. Now she attends Central Michigan University.

“Her Detroit school was crowded and I didn’t feel like it was preparing her for college,” said Bailey. “It’s not getting better in the Detroit schools. It’s getting worse.”

Bloomberg Business

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January 14, 2016 — 9:01 PM PST Updated on January 15, 2016 — 9:10 AM PST

