



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

July 27, 2011

Roy S. Roberts, Emergency Manager
Detroit Public Schools
3011 West Grand Blvd
14th Floor Fisher Building
Detroit, MI 48202

Dear Mr. Roberts:

Thank you for your June 23, 2011, letter. As Emergency Manager for Detroit Public Schools, you have asked for my concurrence in your determination to modify, pursuant to Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act, an existing collective bargaining agreement between Detroit Public Schools and the Detroit Federation of Teachers.

As you are aware, the School District continues to confront a broad, generalized financial and academic exigency, as illustrated by the following:

1. The present accumulated deficit for the School District is estimated to be approximately \$327.0 million.
2. The School District's enrollment continues to decline, having decreased by 48.4 percent over the last decade (from 162,693 pupils during 2000-01, to approximately 84,000 pupils during 2010-11).
3. The School District's graduation rate stood at only 58.2 percent during 2007-08, at 59.6 percent during 2008-09, and at 62.3 percent during 2009-10.
4. The School District has suffered from administrative inconstancy due, in part, to a succession of 10 general superintendents since 1989.

Section 19(1)(k) of the Act authorizes emergency managers to reject, modify, or terminate one or more conditions of an existing collective bargaining agreement. However, in order to do so, an emergency manager and the State Treasurer must both determine that the following four conditions of Section 19(1)(k) have been satisfied:

- (i) The financial emergency in the local government has created a circumstance in which it is reasonable and necessary for the state to intercede to serve a significant and legitimate public purpose.
- (ii) Any plan involving the rejection, modification, or termination of 1 or more

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terms and conditions of an existing collective bargaining agreement is reasonable and necessary to deal with a broad, generalized economic problem.

(iii) Any plan involving the rejection, modification, or termination of 1 or more terms and conditions of an existing collective bargaining agreement is directly related to and designed to address the financial emergency for the benefit of the public as a whole.

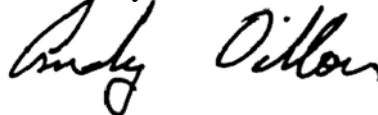
(iv) Any plan involving the rejection, modification, or termination of 1 or more terms and conditions of an existing collective bargaining agreement is temporary and does not target specific classes of employees.

I have reviewed your determinations in this respect and agree that all four statutory conditions have been satisfied. In particular, I find that:

1. The existing collective bargaining agreement with the Detroit Federation of Teachers is one of eight which you have proposed to modify.
2. The proposed modifications to the existing collective bargaining agreement with the Detroit Federation of Teachers as specified in your June 23, 2011, letter (a copy of which is enclosed) would, in the main, consist of a 20 percent health care contribution by employees, a 10 percent wage concession, and suspension of various bonuses.
3. In the aggregate, projected savings to the School District from modification of all eight collective bargaining agreements would be approximately \$82.0 million and is necessary to support your 2012 fiscal year balanced budget and deficit elimination plan.
4. You met and conferred with bargaining representatives on March 14th and 15th, April 4th, 6th, 7th, and 12th, May 4th, 5th, 10th, and 26th, and July 5th, 2011, after which you determined, as required by the Act, that a prompt and satisfactory resolution of issues was unlikely to be obtained.

Therefore, pursuant to Section 19(1)(k) of the Act, I also have determined that the foregoing statutory conditions have been satisfied.

Sincerely,



Andy Dillon
State Treasurer

Enclosure



Detroit Public Schools
Office of the Emergency Manager
Roy S. Roberts

June 23, 2011

Honorable Andrew J. Dillon, State Treasurer
Michigan Department of Treasury
Lansing, Michigan 48922

**RE: Detroit Federation of Teachers ("DFT")
Imposition of Financial Reform Plan**

Dear Mr. Dillon:

The Detroit Public Schools ("DPS" or "the District") is forwarding this letter to seek the State Treasurer's concurrence in imposing the DPS financial reform plan on a bargaining unit which includes teachers and is represented by the Detroit Federation of Teachers ("DFT"). The School District of the City of Detroit is presently in receivership under the authority and control of an Emergency Manager ("EM") pursuant to the Local Government and School District Fiscal Accountability Act ("Act").

On various dates beginning March 2011, meet and confer sessions were held with the DFT in accordance with the Act. The DFT has indicated that the union will not accept any abrogation whatsoever of the existing DFT Collective Bargaining Agreement ("CBA"). As you know, the Act grants the EM broad powers to rectify the financial emergency and to assure accountability of the school district and its capacity to provide or cause to be provided necessary governmental services essential to the public health, safety, and welfare. *2011 PA 4*. The Act also provides that one or more terms and conditions of collective bargaining agreements may be rejected, modified or terminated after meeting and conferring with union representatives, provided the EM believes that a prompt and satisfactory result is unlikely and the EM and the State Treasurer determine that the action is:

1. reasonable and necessary for the state to intercede to serve a significant and legitimate public purpose;
2. reasonable and necessary to deal with broad, generalized economic problem;
3. directly related to and designed to address the financial emergency for the benefit of the public as a whole; and
4. temporary and does not target specific classes of employees. *2011 PA 4, §19(1)*.

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The DFT bargaining unit consists of 6,168 employees and the financial reform plan would realize substantial cost savings by taking the following actions to suspend and/or modify the district's financial obligations under the DFT CBA as detailed below:

Proposed Action	Projected Savings¹
10% Wage Concessions	\$43,059,972
Health Care Redesign Requiring a 20% Employee Contribution	\$6,945,237
Suspension of Sick Leave Payout (upon retirement)	\$12,719,988.16
Suspension of Step Increases	\$4,710,370.05
Suspension of Oversize Class Compensation	\$706,004.70
Suspension of Longevity Bonus	\$670,618.39
Suspension Lost Preparation Periods Compensation	\$544,375.16
Suspension of Certification Bonus	\$387,000.00
Suspension of Special Education Bonus	\$226,975.00
Suspension of Assault Pay	\$113,108.09

¹ The projected economic savings are based on current year actual expenditures for the impacted membership and reflect economic savings for all funds.

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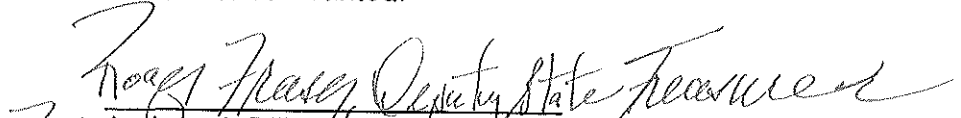
The imposition of the DPS financial reform is in furtherance of the EM's duty to rectify the school district's continuing financial emergency. Pursuant to the meet and confer sessions with the DFT, the EM has determined that a prompt and satisfactory result is unlikely with regard to the adoption of the financial reform plan. Based upon the previously stated facts, it has been determined that the imposition of the DPS financial reform plan on the DFT unit will result in substantial cost savings. In order to accomplish this objective, it has been determined (1) that it is reasonable and necessary for the State to intercede in this matter to serve a significant and legitimate public purpose; (2) that the DPS financial reform plan is reasonable and necessary to deal with a broad, generalized economic problem; (3) that the DPS financial reform plan is directly related to and designed to address the financial emergency for the benefit of the public as a whole; and (4) that since the DPS financial reform plan will be included in a successor collective bargaining agreement for a defined duration, it is temporary. Finally, the DPS financial reform plan does not target specific classes of employees since all bargaining units have been presented with the same and/or similar financial reform plan.

Accordingly, based upon the foregoing circumstances, the EM seeks the State Treasurer's concurrence in imposing the DPS financial reform plan on the DFT bargaining unit.

Sincerely,


Roy S. Roberts
Emergency Manager

Concurrence Granted:


701 Roger Fraser, Deputy State Treasurer
Andrew J. Dillon, State Treasurer

RSR:ga

cc: Roger Fraser, Deputy State Treasurer, State of Michigan Bureau of Local Government Services
Gwendolyn A. de Jongh, Esq., Chief Labor Relations Officer
Phyllis Hurks-Hill, Esq., General Counsel