

Arbitrator & Fact Finder Training Program

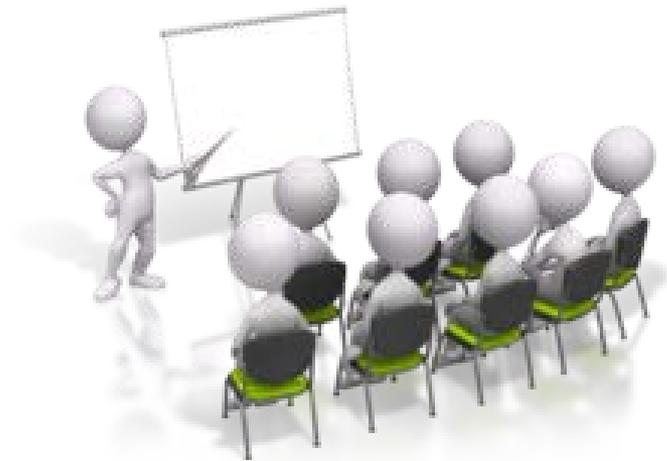
March 27, 2015



Deficit Elimination Process

Agenda

- What is a deficit?
- Why deficit elimination plans are required
- Responsibilities
- Deficit determination
- Historical numbers
- The rest of the story
- Questions



A blurred image of a classroom with students at desks and a teacher at the front, overlaid on a blue gradient background.

What is a deficit?

- When a district's general fund balance becomes negative, or when another fund balance is negative and the general fund balance is insufficient to cover the negative balance
 - Budget deficits count, too

A blue-tinted photograph of a classroom scene with students and a teacher at desks.

Deficit Elimination Plan (DEP)

- MCL 388.1702 (State School Aid Act – Section 102)

A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sum under this act until the district submits to the department for approval a budget for the current fiscal year and a [plan to eliminate the deficit](#) not later than the end of the second fiscal year after the deficit was incurred.

A blue-tinted photograph of a classroom scene, showing students at desks and a teacher standing at the front, positioned in the top-left corner of the slide.

District Responsibility

- Local School Boards, elected by the constituents of local school districts, are charged with the responsibility for allocating financial (revenues) and human (staff) resources to accomplish the various educational objectives of the district.

A blurred background image of a classroom with students and a teacher.

District Responsibility

- MDE **does not** make decisions related to the actual expenditures or programs that a district experiencing a deficit will cut to achieve the positive fund balance. Those decisions remain the responsibility of the local school board and administration.

A blue-tinted photograph of a classroom scene with students and a teacher at desks.

MDE Responsibility

- Establishing Deficit Elimination Plan procedures and forms used to monitor districts that encounter a deficit fund balance
- Determining which districts are in a deficit condition
- Collecting, analyzing and determining if a Deficit Elimination Plan is financially reasonable

A blue-tinted photograph of a classroom scene with students and a teacher.

MDE Responsibility

- **Monitoring a district's adherence to a Deficit Elimination Plan by reviewing budgetary control reports**
- Enforcing penalties on districts that fail to comply with laws related to their fiduciary responsibility
- Annual report and quarterly reports to the Legislature related to the status of districts with deficit fund balances (MCL 388.1702(2))

Deficit Determination

- Deficit districts are identified by:
 - District notification to MDE
 - Review of districts' websites
 - Media coverage
 - Audit submitted to MDE in November





Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- DEPs are due 30 days after receipt of MDE notification or 30 days after school aid budget passed, whichever is later
 - Failure to meet deadline results in withholding of school aid as provided in MCL 388.1702
- If DEP is not approvable, district is notified and given two weeks to revise and resubmit
 - Examples:
 - Missing information (approved budget, spreadsheet detail, etc.)
 - Financial assumptions used in the DEP are not reasonable
 - Deficit increases in any subsequent year
 - Deficit not eliminated in two years (up to five years if additional years granted by State Superintendent)
 - DEP does not comply with previously MDE approved DEP (if applicable)
 - **DEP contains concessions without tentative agreements**

A blurred background image of a classroom with students and a teacher.

Deficit Elimination Plan (DEP) Requirements as Determined by MDE

- If, after revision, DEP is still not approvable, school aid is withheld until DEP is approved (MCL 388.1702(1))
- If district fails to submit monthly Budgetary Control Report, school aid is withheld until report is filed
- State Superintendent can approve an extension to above deadlines (MCL 1702(5))

A small, semi-transparent image in the top-left corner of the slide shows a classroom scene with several people, likely students and a teacher, sitting at desks and looking towards the front of the room.

Deficit Elimination Plan (DEP) Approval

- Standard Contingencies
 - District must:
 - submit monthly budgetary control reports
 - revise DEP if local board adopts a revised budget
 - revise DEP if actual data, such as fall count or audited general fund balance, is significantly different than assumptions used in DEP
- Special Conditions
 - Section 102 of State School Aid Act allows MDE to set special conditions, for example:
 - District asked to provide:
 - **evidence of staff reductions**
 - verification of building closure
 - cash flow statements
 - Enrollment numbers one week after fall count

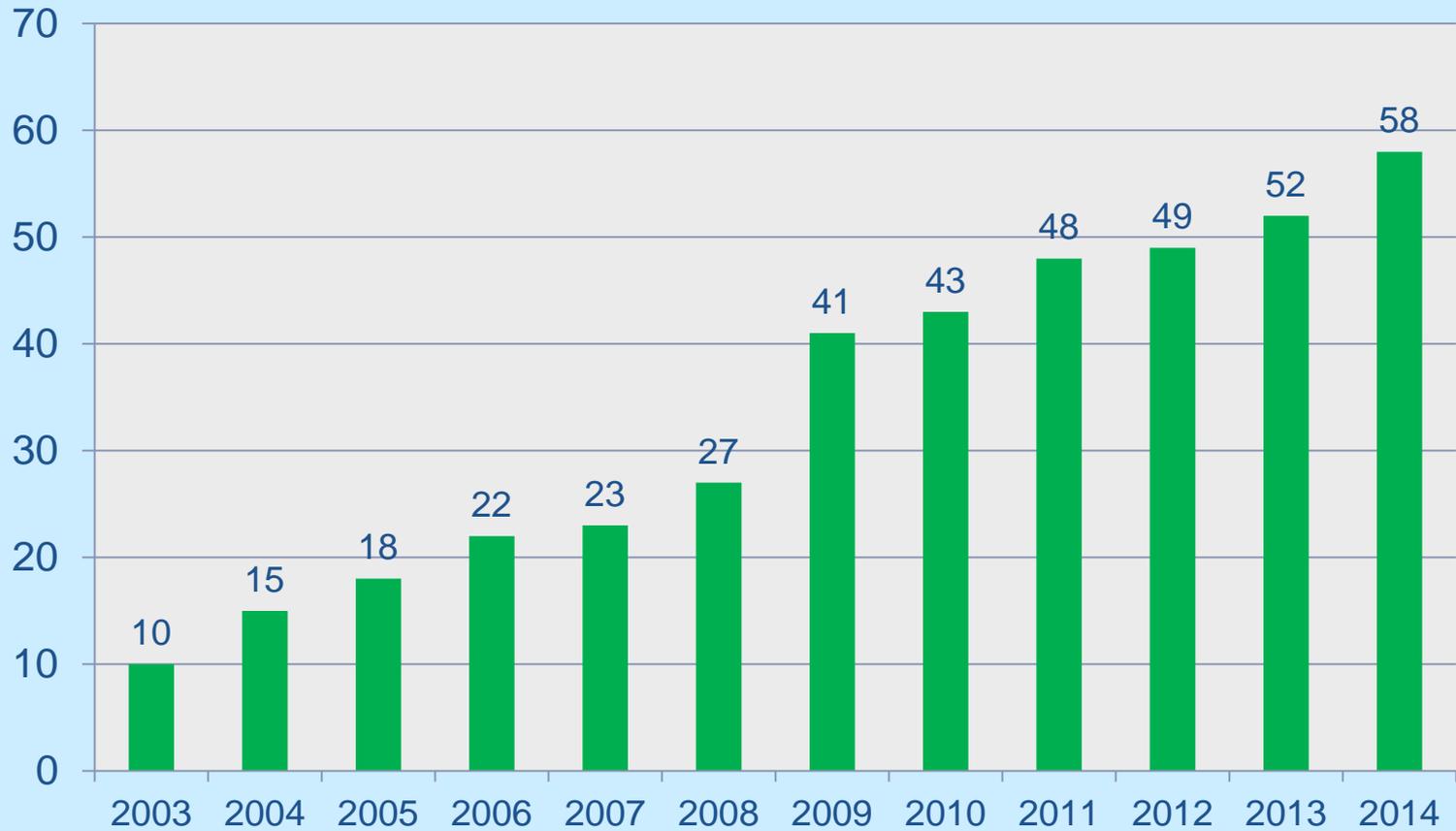
Deficit Elimination Plan (DEP)

- MCL 388.1702 Subsection 1

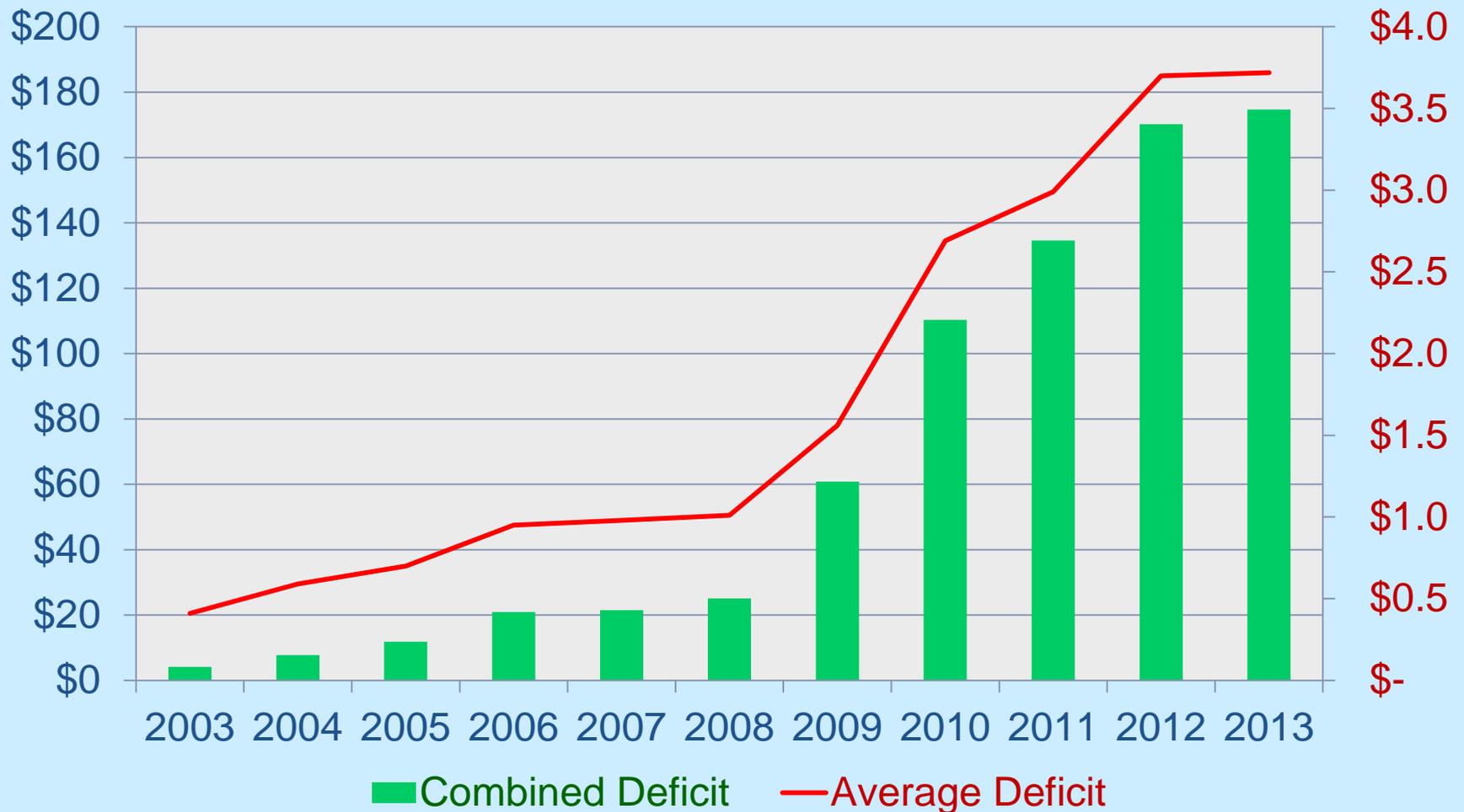
A district must post a complete copy of the Deficit Elimination Plan on their transparency web page no later than 30 days after MDE approval.



Number of Deficit Districts



Severity of Deficits (in millions)



Note: Excludes Detroit Public Schools, Inkster, Buena Vista



And Now... The Rest Of The Story

- Proposal A in 1994
 - Cap property tax
 - Funding based on pupil count
- Charter Schools/Schools of Choice
 - Create competition
- Declining enrollment
- Increasing costs
- Expenditure cuts



If You Do The Math...

Number of Public School Districts in Michigan

School Year	Intermediate School Districts (ISD)	Local Educational Authorities (LEA)	Public School Academies	Educational Achievement Authority (EAA)	Total Public Schools	Fall Pupil Count
1991-1992	57	559			616	1,673,020
1992-1993	57	559			616	1,675,465
1993-1994	57	557	1		615	1,667,041
1994-1995	57	557	14		628	1,653,949
1995-1996	57	555	44		656	1,673,879
1996-1997	57	555	78		690	1,680,693
1997-1998	57	555	108		720	1,694,320
1998-1999	57	555	138		750	1,710,365
1999-2000	57	555	171		783	1,714,815
2000-2001	57	554	184		795	1,720,335
2001-2002	57	554	189		800	1,731,151
2002-2003	57	553	189		799	1,750,631
2003-2004	57	553	199		809	1,734,019
2004-2005	57	552	216		825	1,723,087
2005-2006	57	552	225		834	1,712,133
2006-2007	57	552	229		838	1,693,436
2007-2008	57	552	230		839	1,661,414
2008-2009	57	551	232		840	1,628,628
2009-2010	57	551	240		848	1,605,971
2010-2011	57	551	247		855	1,577,123
2011-2012	57	549	256		862	1,559,847
2012-2013	56	549	277	1	883	1,542,691
2013-2014	56	545	298	1	900	1,530,457



The Outliers

- Mt. Morris Schools
 - 30% enrollment decrease
 - Maintained fund balance over 10% of expenditures
- Capac Schools
 - 28% enrollment decrease
 - Generally maintained fund balance over 10% of expenditures



The Strategies

- Continuously right sizing
 - Consolidate/eliminate positions
 - Close buildings
 - Bus routes/supplies/class splits
- Outsource non-instructional services
 - ISD and neighboring districts
- Employee concessions
 - Professional development reimbursement
 - Longevity pay/prep period/retirement benefit
 - Furlough days/unpaid holidays

Questions and Comments

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