

# **Michigan Department of Education**

## **Deficit District Requirements**

### **Statute Requirements**

The following are excerpts from MCL 388.1702 regarding prohibition of deficit budgets or operating deficits; plans to eliminate deficits; and the withholding of state aid payments:

Sec. 102 (1) A district or intermediate district receiving money under this act shall not adopt or operate under a deficit budget, and a district or intermediate district shall not incur an operating deficit in a fund during a school fiscal year. A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall not be allotted or paid a further sum under this act until the district or intermediate district submits to the department for approval a budget for the current school fiscal year and a plan to eliminate the district's or intermediate district's deficit not later than the end of the second school fiscal year after the deficit was incurred or the budget projecting a deficit was adopted. Withheld state aid payments shall be released after the department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

Sec. 102 (4) A district or intermediate district that has an existing deficit fund balance, that incurs a deficit fund balance in the most recently completed school fiscal year, or that adopts a current year budget that projects a deficit fund balance shall submit to the department a monthly monitoring report on revenue and expenditures in a form and manner prescribed by the department.

Sec. 102 (5) If a district or intermediate district is not able to comply with the provisions of this section, the district or intermediate district shall submit to the department a plan to eliminate its deficit. Upon approval of the plan submitted, the superintendent of public instruction may continue allotment and payment of funds under this act, extend the period of time in which a district or intermediate district has to eliminate its deficit, and set special conditions that the district or intermediate district must meet during the period of the extension.

### **MDE Requirements**

Upon discovery of an operating deficit or adoption of a deficit budget by a district the Michigan Department of Education (MDE) will notify the district of its obligation to submit a deficit elimination plan (DEP) to MDE. The DEP is due 30 days after the MDE notification or 30 days after the state school aid budget is passed, whichever comes later.

The MDE will immediately withhold State School Aid payments from:

- 1) A district that fails to meet the MDE deadline for submission of a DEP, **or**
- 2) A district that meets the deadline for submission of the DEP but the plan is un-approvable as evidenced by:
  - i) the plan is missing required information (approved budget, spreadsheet detail, narrative, etc.);
  - ii) information related to the revenues and expenditures reported within the DEP is not reasonable or verifiable;
  - iii) a deficit that increases rather than decreases in any subsequent year;
  - iv) the deficit is not eliminated within two years of its inception, unless the district has a Superintendent of Public Instruction (SPI) approved extension for extenuating circumstances
    - (1) The MDE's policy is to grant no more than three additional years to eliminate the deficit, matching the hardship period in 388.1615(2);
  - v) the district failed to implement the terms of a previously submitted deficit elimination plan
    - (1) There may be extenuating circumstances that will be taken into consideration when evaluating 2)v). Examples of these circumstances include:
      - (a) unforeseen extreme reductions in enrollment
      - (b) unforeseen reductions in the state foundation (e.g. mid-year proration)
    - (2) These and other similar circumstances may cause the district to violate certain items in 2)v) above. The SPI may, at his/her discretion, waive the violations in light of the particular circumstances.
- 3) A district that, after having its DEP approved, fails to submit monthly Budgetary Control Reports.

The district will continue to receive state aid payments unless they meet 1), 2), or 3) above.

For districts falling into 2) above; MDE will allow the district two weeks from the date of follow-up correspondence from MDE to address the issues and submit a revised plan. The MDE will withhold State School Aid payments from any district that fails to submit a revised, approvable plan within two weeks of the MDE correspondence.

The SPI may approve an extension of the MDE deadline.