

December 6, 2012

**MEMORANDUM**

**TO:** House and Senate K-12 Appropriations Subcommittees

**FROM:** Mike Flanagan, State Superintendent 

**SUBJECT:** Quarterly Report to the Legislature on Deficit Districts

**OVERVIEW**

The Michigan Department of Education (MDE) is required in Section 102 of the State School Aid Act to report quarterly to the Legislature on school districts incurring year-end deficits and the districts' progress in reducing those deficits. For this first quarterly report to the Legislature, school district cost reports of revenues and expenditures for the fiscal year ending June 30, 2012, have been analyzed. It should also be noted that since 1976, MDE has provided the Legislature with an annual report on local school districts in financial deficit as required by law.

Section 102(2) of the State School Aid Act (Public Act No. 94 of 1979, as amended) states:

"(2) Not later than March 1 of each year, the department shall prepare a report of deficits incurred or projected by districts and intermediate districts in the immediately preceding fiscal year and the progress made in reducing those deficits and submit the report to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 education appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director. The department also shall submit quarterly interim reports concerning the progress made by districts and intermediate districts in reducing those deficits. On a quarterly basis, the superintendent of public instruction shall publicly present those reports to the appropriations subcommittees of the legislature responsible for K-12 education appropriations."

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The following narrative provides relevant information regarding process; the attached analysis provides deficit district specific information.

### **MICHIGAN DEPARTMENT OF EDUCATION (MDE) PROCESS**

Under Governor Snyder's Good Government initiative, MDE has included a financial metric on our Scorecard related to Deficit Elimination Plans (DEPs) as follows: Percent of DEPs reviewed within 30 days of receipt from districts. MDE is achieving 100% on this metric.

In addition, the law requires that deficit districts submit a Deficit Elimination Plan (DEP) to MDE. MDE has a formal process in place to assure that school districts develop and implement plans (DEPs) to eliminate their general fund deficits. Long-standing MDE procedures ensure that districts are treated fairly throughout the deficit elimination process. MDE's website ([http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-106599--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-106599--,00.html)) includes definitions, contact information, a flow chart to assure accurate completion of required forms, and district requirements. MDE provides considerable technical assistance to districts during the DEP development and submission process. When necessary, the process may include requiring district representatives (i.e. administrators, local board of education members and union representatives) to attend a meeting(s) in Lansing to discuss requirements in the law (see following section), status of the district's financial situation, possible modifications to the district's DEP, and answer questions. The desired outcome of such a meeting is for all of the district's key representatives to leave with a mutual understanding related to what is in the law and what is required of deficit districts. The MDE team stresses that because Michigan is a locally controlled state, district officials must make the difficult decisions that will eliminate the deficit. MDE also includes Department of Treasury staff in these meetings to discuss how processes within Treasury regarding the State Aid Note Borrowing Program and the Emergency Bond Loan Program relate to and affect a district's deficit status. It is imperative that district representatives understand the link between borrowing through Treasury and reducing expenditures in order to eliminate the deficit.

Public school academies (charter schools) are treated the same as the traditional districts when faced with a deficit situation. They receive technical assistance and must submit a DEP to MDE and have it approved. Our experience has found that the charter authorizer will step in and either close the school or take other steps early in the process so, to date, a meeting in Lansing has not yet been necessary.

## **REQUIREMENTS IN LAW**

### **DISTRICT REQUIREMENTS**

Michigan is a locally controlled state; Sec. 102(1) of the State School Aid Act [MCL 388.1702(1)] states:

"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 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. After the department approves a district's or intermediate district's deficit reduction plan, the district or intermediate district shall post the deficit elimination plan on the district's or intermediate district's website."

The Uniform Budgeting and Accounting Act places the burden for eliminating a district's deficit on the local board of education.

- MCL 141.436(7) Except as otherwise permitted by section 102 of the state school aid act of 1979, 1979 PA 94, MCL 388.1702, or by other law, the legislative body shall not adopt a general appropriations act or an amendment to that act which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations.
- MCL 141.437(2) If, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, the chief administrative officer or fiscal officer shall present to the legislative body recommendations which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year. The recommendations shall include proposals for reducing appropriations from the fund for budgetary centers in a manner that would cause the total of appropriations to not be greater than the total of revised estimated revenues of the fund, or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. The recommendations shall recognize the requirements of state law and the provisions of collective bargaining agreements.

- MCL 141.438(3) Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.

### **MICHIGAN DEPARTMENT OF EDUCATION REQUIREMENTS**

The law also includes penalties that are to be imposed on deficit districts: (1) withholding state school aid [MCL 388.1702(1)] (see statutory language above); and (2) reporting a violation to the Attorney General who will review the report and determine whether or not to act [MCL 388.1761] (see statutory language below).

To date, as State Superintendent, I have periodically authorized state aid to be withheld from a limited number of deficit districts that have failed to comply with district requirements specified in law.

"A school official or member of a board or other person who neglects or refuses to do or perform an act required by this act or who violates or knowingly permits or consents to the violation of this act is guilty of a misdemeanor, punishable by imprisonment for not more than 90 days, or a fine of not more than \$1,500, or both." (MCL 388.1761)

There has been no instance where, as State Superintendent, I have asked the Attorney General's involvement regarding deficit districts.

### **EARLY WARNING INDICATORS**

Based on the increasing number of districts across the state that are in deficit or close to becoming a deficit district, MDE took the lead over the last year to analyze data submitted by districts that would result in early warning indicators. The indicators will be used to alert district and local board officials regarding negative trends that could result in serious financial issues. During the early warning indicators development process, MDE reached out to education stakeholder groups and learned that the Michigan School Business Officials, Michigan Association of School Boards, and the Michigan Association of School Administrators were in discussion with a private vendor, Munetrix, to essentially develop the same type of early warning system using data submitted to the state by school districts. MDE is now working with these stakeholders to review the Munetrix system and identify critical indicators that could be added (i.e. audit findings). Munetrix provides information for all local units of government (i.e. cities, townships, school districts, etc.). Treasury is also looking at the system as it relates to municipalities.

The goal of these indicators is to assure that districts and, because Michigan is a locally controlled state, their respective boards of education are aware of budget and potential deficit issues. As this new process is implemented, it will include a letter from me, as State Superintendent, alerting the district superintendent and local board of education president that the district's financial situation is deteriorating and action should be

taken to review the district budget and make necessary changes. MDE staff will also contact the Michigan School Business Officials to assure that the district is aware of best practices provided by the organization.

**DEFICIT DISTRICT DATA**

Attachments A, B, and C provide the financial analysis of deficit districts for FY2011-12 (the most current, audited data available).

Additional questions about this report should be directed to Glenda Rader, Office of State Aid and School Finance, at [raderg@michigan.gov](mailto:raderg@michigan.gov) or (517) 373-3350.

Attachments

**DEFICIT DISTRICT QUARTERLY REPORT  
TO THE HOUSE AND SENATE K-12 APPROPRIATIONS SUBCOMMITTEES  
FINANCIAL ANALYSIS OF MICHIGAN DEFICIT SCHOOL DISTRICTS  
2011-2012**

An analysis of the 2011-2012 (fiscal year 2012) financial data has been completed identifying school districts that ended the year with a deficit. The analysis is conducted using data collected on the annual comprehensive financial report (FID – Financial Information Database as collected by the State Budget Office’s Center for Educational Performance and Information or CEPI) which is filed by districts and from financial audit reports prepared by Certified Public Accountants. Both reports are due by law to MDE by November 15 following the end of the fiscal year; analysis of the data is usually completed by early February. In cases where the FID and audit have not been submitted to MDE, the analysis is conducted using data collected from correspondence, budgets, or deficit elimination plans (DEPs) submitted by the districts.

For the school fiscal year that ended June 30, 2012, there were 49 districts, 46 traditional school districts and three (3) public school academies, with operating deficits compared to a total of 48 as of June 30, 2011.

Of the 48 districts that ended FY2011 in deficit, nine (9) successfully eliminated the deficit by the end of FY2012. Four districts (three public school academies and one traditional district) that ended FY2011 with a deficit closed after FY2011. The districts are identified in Attachment C. The remaining 35 districts plus an additional 14 districts comprise the 49 districts that ended FY2012 in deficit. Attachment B lists the 49 districts and the basic financial details of the fiscal situation. It also indicates the general status with regard to changes in the financial situation between June 30, 2011 and June 30, 2012. (NOTE: This information is current as of December 4, 2012.)

Michigan Public Schools with Deficits  
For Fiscal Year Ending June 30, 2012

Attachment B

ISD/School Name	June 2011 Fund Balance	2012 GF Revenues	6/30/2012 Fund Balance / (Deficit) As Reported in November 2012	% Deficit is of Revenues
<b>CATEGORY 1</b>				
Districts that both began and ended the year in deficit but were successful in reducing the deficit in compliance with their approved plan.				
<b>Calhoun</b>				
Bellevue Community Schools	(\$646,910)	\$5,679,822	(\$254,126)	-4.47%
<b>Iosco RESA</b>				
Hale Area Schools	(\$650,461)	\$5,506,032	(\$195,203)	-3.55%
<b>Macomb</b>				
New Haven Community Schools	(\$460,592)	\$12,401,411	(\$321,808)	-2.59%
<b>Oakland</b>				
School District of the City of Hazel Park	(\$2,343,202)	\$46,924,468	(\$1,527,137)	-3.25%
Oak Park School District	(\$7,902,891)	\$45,475,278	(\$5,547,444)	-12.20%
<b>Wayne</b>				
Detroit Public Schools	(\$283,929,316)	\$1,181,656,657	(\$72,003,336)	-6.09%
Hamtramck Public Schools	(\$4,961,129)	\$33,553,895	(\$3,776,824)	-11.26%
Highland Park City Schools	(\$11,251,484)	\$17,511,792	(\$9,163,527) *	-52.33%
Northpointe Academy	(\$266,456)	\$2,939,990	(\$20,840)	-0.71%
<b>CATEGORY 2</b>				
Districts that both began and ended the year in deficit and were successful in reducing the deficit, but not to the extent contained in their approved plan.				
<b>Copper Country</b>				
Hancock Public Schools	(\$840,667)	\$6,738,607	(\$770,596)	-11.44%
<b>Livingston ESA</b>				
Brighton Area Schools	(\$7,890,905)	\$49,825,269	(\$7,388,781)	-14.83%
<b>Macomb</b>				
East Detroit Public Schools	(\$7,860,591)	\$36,843,995	(\$7,545,877)	-20.48%
Clintondale Community Schools	(\$4,993,071)	\$31,317,906	(\$4,772,258)	-15.24%
<b>Marquette Alger RESA</b>				
North Star Academy	(\$91,710)	\$2,141,540	(\$28,222)	-1.32%
<b>CATEGORY 3</b>				
Districts that began the year in deficit and ended with a greater deficit.				
<b>Berrien</b>				
Benton Harbor Area Schools	(\$16,076,758)	\$31,868,532	(\$16,099,422)	-50.52%
<b>Cheboygen-Otsego-Presque Isle</b>				
Vanderbilt Area School District	(\$95,872)	\$1,393,226	(\$155,449)	-11.16%
<b>Genesee ISD</b>				
Flint Community Schools	(\$3,694,744)	\$141,835,604	(\$4,044,840)	-2.85%
Westwood Heights Schools	(\$124,340)	\$9,413,866	(\$154,335)	-1.64%
<b>Macomb</b>				
Mt. Clemens Community Schools	(\$3,847,845)	\$18,804,021	(\$4,790,635)	-25.48%
<b>Mason-Lake ISD</b>				
Mason County Eastern Schools	(\$231,345)	\$4,247,280	(\$251,542)	-5.92%
<b>Muskegon</b>				
Muskegon Heights School District	(\$8,473,001)	\$16,882,450	(\$11,777,163) *	-69.76%
<b>Newaygo County</b>				
White Cloud School District	(\$460,495)	\$9,898,887	(\$693,720)	-7.01%
<b>Oakland</b>				
Pontiac School District	(\$24,534,392)	\$74,541,278	(\$26,039,753) *	-34.93%
Avondale School District	(\$989,233)	\$36,485,001	(\$1,327,425)	-3.64%

Michigan Public Schools with Deficits  
For Fiscal Year Ending June 30, 2012

Attachment B

ISD/School Name	June 2011 Fund Balance	2012 GF Revenues	6/30/2012 Fund Balance / (Deficit) As Reported in November 2012	% Deficit is of Revenues
<b>Saginaw ISD</b>				
Saginaw City School District	(\$1,417,986)	\$89,596,877	(\$5,100,750)	-5.69%
Buena Vista Schools	(\$51,593)	\$10,273,035	(\$1,028,389) *	-10.01%
Bridgeport Spaulding Community School District	(\$954,339)	\$13,427,525	(\$2,561,221)	-19.07%
<b>Washtenaw</b>				
Ypsilanti Public Schools	(\$4,901,940)	\$42,464,801	(\$9,014,364)	-21.23%
Willow Run Community Schools	(\$1,702,257)	\$19,908,743	(\$2,887,264)	-14.50%
<b>Wayne</b>				
School District of the City of Inkster	(\$10,507,942)	\$28,926,958	(\$12,787,350)	-44.21%
Redford Union Schools	(\$1,757,017)	\$25,568,874	(\$4,114,455)	-16.09%
River Rouge School District	(\$2,987,237)	\$19,463,602	(\$3,427,203)	-17.61%
Westwood Community School District	(\$6,172,286)	\$27,021,023	(\$6,240,031)	-23.09%
Ecorse Public School District	(\$507,075)	\$10,982,242	(\$1,531,978)	-13.95%
Southgate Community Schools	(\$1,376,678)	\$44,018,193	(\$3,249,656)	-7.38%
<b>CATEGORY 4</b>				
Districts that began the year with a positive fund balance but ended the year in deficit.				
<b>Barry ISD</b>				
Hastings Area School System	\$340,780	\$22,281,537	(\$622,606)	-2.79%
<b>Calhoun</b>				
Athens Area Schools	\$264,046	\$5,236,344	(\$21,185)	-0.40%
<b>Cheboygen-Otsego-Presque Isle</b>				
Mackinaw City Public Schools	\$218,374	\$2,242,252	(\$23,914)	-1.07%
<b>Dickinson-Iron ISD</b>				
North Dickinson County Schools	\$18,014	\$2,565,601	(\$126,171)	-4.92%
<b>Traverse Bay Area ISD</b>				
Bellaire Public Schools	\$6,550	\$4,053,418	(\$41,116)	-1.01%
<b>Gratiot-Isabella RESD</b>				
Ashley Community Schools	\$14,760	\$2,754,058	(\$164,856)	-5.99%
<b>Hillsdale ISD</b>				
North Adams-Jerome Public Schools	\$170,611	\$3,373,958	(\$114,796)	-3.40%
<b>Macomb</b>				
Van Dyke Public Schools	\$85,428	\$32,400,313	(\$741,835)	-2.29%
<b>Menominee ISD</b>				
Menominee Area Public Schools	\$718,741	\$13,249,674	(\$129,287)	-0.98%
<b>Monroe County ISD</b>				
Bedford Public Schools	\$998,698	\$39,699,331	(\$518,799)	-1.31%
<b>Shiawassee RESD</b>				
Perry Public Schools	\$196,723	\$12,229,109	(\$1,083,873)	-8.86%
<b>Wayne</b>				
Dearborn Heights School District #7	\$271,561	\$23,996,207	(\$991,174)	-4.13%
Taylor School District	\$3,648,718	\$64,391,160	(\$5,941,851)	-9.23%
HEART Academy	\$22,920	\$1,936,375	(\$93,780)	-4.84%
* Estimated balance. As of 12/4/2012 district has not submitted FID data as required. December 20,2012 State Aid payment will be withheld.				
SUMMARY:				
# of	Description			
9	1	Districts that both began and ended the year in deficit but were successful in reducing the deficit in compliance with their approved plan.		
5	2	Districts that both began and ended the year in deficit and were successful in reducing the deficit, but not to the extent contained in their approved plan.		
21	3	Districts that began the year in deficit and ended with a greater deficit.		
14	4	Districts that began the year with a positive fund balance but ended the year in deficit.		

<b>Michigan Public Schools</b>			
<b>with Deficits at June 30, 2011</b>			
<b>and Positive Fund Balances at June 30, 2012</b>			
<b>District Code</b>	<b>School District/Academy</b>	<b>Fund Balance as of 6/30/2011</b>	<b>Fund Balance as of 6/30/2012</b>
27010	Bessemer Area Schools	(\$176,727)	\$151,277
46080	Hudson Area Schools	(\$149,216)	\$143,571
52110	Republic-Michigamme Schools	(\$45,587)	\$2,347
52180	Ishpeming Public School District	(\$250,746)	\$4,070
63925	Taylor International Academy	(\$13,052)	\$33,749
66045	Ewen-Trout Creek Consolidated School District	(\$366,964)	\$25,852
71060	Posen Consolidated School District #9	(\$13,349)	\$27,310
80040	Covert Public Schools	(\$1,478,638)	\$116,782
82725	Global Heights Academy	(\$23,166)	\$5,795
<b>Michigan Public Schools</b>			
<b>with Deficits at June 30, 2011</b>			
<b>That Closed Subsequent to June 30, 2011</b>			
<b>District Code</b>	<b>School District/Academy</b>	<b>Fund Balance as of 6/30/2011</b>	
11160	Galien Township School District	(\$502,325)	
38903	Jackson Arts & Technology Academy	(\$164,381)	
63919	Woodmont Academy	(\$177,201)	
81907	Victory Academy Charter School	(\$91,576)	