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STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

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SUPERINTENDENT OF
PUBLIC INSTRUCTION

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MEMORANDUM

TO: State Board of Education

FROM: Mike Flanagan 

SUBJECT: Presentation on School Districts' Deficit Status

In 2010, Michigan had 551 LEA's, 240 PSAs, and 57 ISDs for a total of 848 education entities. The most recent data show that of these entities, 95% or 805 (515 LEA's, 233 PSAs, 57 ISDs) had a positive fund balance as of June 30, 2010. At this point in time, only 5% of these entities or 43 are in deficit. This is evidence that the overwhelming majority of districts have been able to manage their finances and maintain a positive fund balance in very difficult economic times.

As indicated in the attached information, 43 Michigan public school districts and public school academies ended fiscal year 2009-2010 in a deficit position (see attachments A and B). There were 41 such districts in June 2009, eight of which eliminated their deficits during the year ending June 30, 2010 (see attachment C). Ten districts that began 2009-2010 with a positive fund balance ended the year with a deficit.

The Department has in place a formal procedure that requires school districts to develop plans to eliminate their general fund deficits. This procedure may ultimately include meeting with district administrators to evaluate and possibly recommend modifications to their plan. These meetings include a discussion of the roles and responsibilities of those involved in the deficit elimination process (see attachment D). Districts are also made aware of the requirements regarding the Deficit Elimination Plan approval process (see attachment E).

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FINANCIAL STATUS OF MICHIGAN DEFICIT SCHOOL DISTRICTS 2009-2010

An analysis of the 2009-2010 (fiscal year 2010) 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, which is filed by the districts and from financial audit reports prepared by Certified Public Accountants. Both reports are due to the Department in November following the end of the fiscal year; an analysis of the data is usually completed by early February. The superintendents of those districts determined to be in a deficit situation are contacted and meetings between department staff and school administrators and/or local school board members are arranged, when necessary, to review their deficit elimination plans in detail.

For the school fiscal year that ended June 30, 2010, there were 43 districts, 36 traditional school districts and seven (7) public school academies, with operating deficits compared to a total of 41 as of June 30, 2009.

Of the 41 districts that ended FY2009 in deficit, eight (8) successfully eliminated the deficit by the end of FY2010. The districts are identified on Attachment B. The remaining 33 districts plus an additional ten (10) districts comprise the 43 districts that ended FY2010 in deficit. Attachment B lists the 43 districts and the basic financial details of their fiscal situation and indicates their general status with regard to changes in their financial situation between June 30, 2009 and June 30, 2010.

In summary:

Five districts that began and ended FY2010 in deficit were successful in reducing the deficit to the level indicated in their plan (Category A on Attachment B)

Three districts that began and ended FY2010 in deficit reduced the deficit, but not to the extent contained in their plan (Category B)

Twenty-five districts began FY2010 in deficit and ended the year with a greater deficit (Category C)

Ten districts began FY2010 with a positive fund balance, but incurred a deficit during the year (Category D)

**Michigan Public Schools with Deficits
For Fiscal Year Ending June 30, 2010**

ISD/School Name	Category	June 2009 Fund Balance	2010 GF Revenues	6/30/2010 Fund Balance / (Deficit)	% Deficit is of Revenues
Alpena-Montmorency-Alcona ESD Bingham Academy	A	(\$138,098)	\$1,290,404	(\$116,188)	-9.00%
Berrien Benton Harbor Area Schools	C	(\$11,523,906)	\$36,895,037	(\$15,990,065)	-43.34%
Calhoun Bellevue Community Schools	D	\$47,978	\$5,418,051	(\$415,651)	-7.67%
Cheboygen-Otsego-Presque Isle Vanderbilt Area School District	D	\$20,769	\$1,817,198	(\$82,983)	-4.57%
Eastern Upper Peninsula ISD Les Cheneaux Community Schools	C	(\$46,473)	\$2,941,512	(\$89,275)	-3.03%
Gogebic-Ontonagon Ewen-Trout Creek Consolidated School District	A	(\$1,087,795)	\$2,764,836	(\$775,033)	-28.03%
Copper Country Hancock Public Schools	B	(\$1,608,045)	\$6,618,969	(\$1,557,539)	-23.53%
Huron ISD Owendale-Gagetown Area Schools	C	(\$27,472)	\$1,838,435	(\$35,703)	-1.94%
Iosco RESA Hale Area Schools	C	(\$117,820)	\$5,856,008	(\$134,801)	-2.30%
Lenawee ISD Hudson Area Schools	C	(\$195,899)	\$7,982,221	(\$302,622)	-3.79%
Livingston ESA Brighton Area Schools	C	(\$2,396,281)	\$51,732,459	(\$7,246,901)	-14.01%
Macomb East Detroit Public Schools	C	(\$3,813,147)	\$43,454,588	(\$8,218,403)	-18.91%
Clintondale Community Schools	C	(\$5,230,638)	\$32,086,272	(\$5,538,622)	-17.26%
Mt. Clemens Community Schools	C	(\$949,012)	\$21,173,360	(\$2,467,182)	-11.65%
New Haven Community Schools	C	(\$394,142)	\$12,150,823	(\$643,591)	-5.30%
Ben Ross Public School Academy	D	\$0	\$5,055,239	(\$207,521)	-4.11%

**Michigan Public Schools with Deficits
For Fiscal Year Ending June 30, 2010**

Marquette Alger RESA					
Republic-Michigamme Schools	C	(\$64,519)	\$1,588,425	(\$84,592)	-5.33%
Ishpeming Public School District	C	(\$468,963)	\$8,004,784	(\$535,433)	-6.69%
North Star Academy	D	\$5,393	\$1,748,020	(\$25,151)	-1.44%
Muskegon					
Muskegon Heights School District	C	(\$1,569,009)	\$19,894,627	(\$4,319,698)	-21.71%
Newaygo County					
White Cloud School District	D	\$586,870	\$10,065,221	(\$190,418)	-1.89%
Oakland					
Pontiac School District	C	(\$8,533,503)	\$77,890,627	(\$12,228,315)	-15.70%
Avondale School District	C	(\$1,102,339)	\$38,522,124	(\$2,453,732)	-6.37%
School District of the City of Hazel Park	C	(\$1,774,492)	\$46,515,703	(\$3,927,017)	-8.44%
West Bloomfield School District	D	\$1,715,947	\$69,844,287	(\$1,722,193)	-2.47%
Oak Park School District	C	(\$3,032,016)	\$42,740,171	(\$6,632,252)	-15.52%
Van Buren ISD					
Covert Public Schools	C	(\$1,002,758)	\$9,732,931	(\$3,241,823)	-33.31%
Washtenaw					
Ypsilanti Public Schools	C	(\$2,212,810)	\$49,721,585	(\$3,755,042)	-7.55%
Willow Run Community Schools	A	(\$3,007,674)	\$21,415,337	(\$2,803,557)	-13.09%
Victory Academy Charter School	C	(\$47,368)	\$1,518,586	(\$159,343)	-10.49%
Wayne					
Detroit Public Schools	C	(\$218,969,419)	\$1,071,758,616	(\$327,299,271)	-30.54%
Garden City School District	A	(\$471,498)	\$45,346,068	(\$456,006)	-1.01%
Hamtramck Public Schools	C	(\$1,118,968)	\$31,140,978	(\$4,077,367)	-13.09%
Highland Park City Schools	C	(\$3,070,403)	\$21,202,706	(\$7,211,206)	-34.01%
School District of the City of Inkster	B	(\$10,049,922)	\$32,183,439	(\$9,300,981)	-28.90%
Redford Union Schools	D	\$390,340	\$27,682,193	(\$1,573,788)	-5.69%
River Rouge School District	C	(\$2,165,410)	\$14,718,025	(\$3,055,907)	-20.76%
Westwood Community School District	C	(\$2,664,336)	\$24,913,310	(\$5,472,777)	-21.97%
Ecorse Public School District	B	(\$239,580)	\$10,950,506	(\$27,838)	-0.25%
Southgate Community Schools	D	\$147,016	\$44,887,552	(\$1,731,524)	-3.86%
Aisha Shule/WEB Dubois Prep. Academy School	A	(\$186,855)	\$2,067,800	(\$144,078)	-6.97%
Cherry Hill School of Performing Arts	D	\$24,045	\$8,967,617	(\$353,233)	-3.94%
Academy of Inkster	D	\$524	\$1,809,870	(\$272,241)	-15.04%

- 5 A Districts that both began and ended the year in deficit but were successful in reducing the deficit in compliance with their approved plan.
- 3 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.
- 25 C Districts that began the year in deficit and ended with a greater deficit.
- 10 D Districts that began the year with a positive fund balance but ended the year in deficit.

**Michigan Public Schools
with Deficits at June 30, 2009
and Positive Fund Balances at June 30, 2010**

Attachment C

School District/Academy	Fund Balance as of 6/30/2009	Fund Balance as of 6/30/2010
DREAM Academy	(\$42,594)	\$21,821
Jackson Arts & Technology PSA	(\$127,800)	\$0
Woodmont Academy	(\$49,999)	\$41,500
Walden Green Montessori	(\$193,744)	\$138,314
Vista Meadows Academy	(\$4,216)	\$79,064
Plymouth Educational Center	(\$230,423)	\$351,925
West Village Academy	(\$10,562)	\$182,695
Northpointe Academy	(\$126,906)	\$39,308

Deficit Roles & Responsibilities



State School Aid Act Section 102

- MCL 388.1702

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.

Uniform Budgeting and Accounting Act

- MCL 141.436

Except as otherwise permitted in MCL 388.1702 the **local school board** shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures including an accrued deficit to exceed total estimated revenues.

 **Uniform Budgeting and Accounting Act**

- **MCL 141.438**
The administration of a school district shall not incur expenditures against an appropriation (Budget) account in excess of the amount appropriated (Budgeted) by the local school board.

 **Uniform Budgeting and Accounting Act**

- **MCL 141.439**
A member of the legislative body, the chief administrative officer, or an employee of a school district shall not authorize or participate in the expenditure of funds except as authorized by the general appropriations act (budget).

 **District School Board and Administration Responsibility**

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



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 reasonable



MDE Responsibility

- Monitoring a district's adherence to a Deficit Elimination Plan by reviewing monthly budgetary control reports
- Enforcing penalties on districts that fail to comply with laws related to its fiduciary responsibility
- Reporting to the Legislature the status of districts with deficit fund balances



MDE 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.

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.