



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

June 6, 2013

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. In this third quarterly report, an analysis of the projected 2012-2013 (fiscal year 2013) financial data has been completed for those school districts that ended FY 2012 with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans (DEPs) and required monthly budget control reports. It should be noted that since 1976, MDE has provided the Legislature with an annual report on local school districts in financial deficit.

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

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present those reports to the appropriations subcommittees of the legislature responsible for K-12 education appropriations."

The following narrative provides relevant information regarding process, requirements, and selected district information; 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 continuing to achieve 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 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) 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 Loan Program relate to and affect a district's deficit status. It is imperative that district representatives understand that borrowing through Treasury for cash flow does not negate the need to reduce expenditures in order to eliminate the deficit.

Since my second report to you on February 26, 2013, MDE staff have met in Lansing with the following critically deficit districts:

- Pontiac School District – March 6, 2013 (Refer to Page 5 for additional information on this district)
Treasury Meetings – In addition to the March 6 meeting, my staff attended two meetings called by Treasury on May 20 and May 29, 2013 to discuss the significance of the district's inability to repay its State Aid Note, its request for a Tax Anticipation Note, and the Judgment Levy granted to MESSA for \$7.8 million. Treasury is in the process of making decisions on each of these topics.

- White Cloud Public Schools – March 7, 2013; MDE approved the DEP on April 3, 2013
- Ecorse Public Schools – March 14, 2013; MDE is reviewing the revised DEP and considering the district request for an extension of an additional year
- Inkster Public Schools – April 12, 2013; MDE is reviewing requested additional documentation related to the DEP
- Mt. Clemens Community Schools – April 18, 2013; MDE has reviewed the DEP and anticipates receiving the district board approved DEP following its June 19, 2013 board meeting
- Brighton Area Schools – May 2, 2013; district immediately provided required additional data and detail, MDE approved the DEP on May 3, 2013
- Hazel Park Schools – May 15, 2013; revised DEP due no later than June 7, 2013
- East Detroit Public Schools – May 22, 2013; revised DEP due July 30, 2013; the district is asking for an extension of an additional year

Public school academies (charter schools) are treated the same as 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 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, 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

Penalties in law 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 submit timely, required information. (See Page 5, Additional Selected District Information, where I have provided details on my most recent actions with Pontiac and Buena Vista.)

“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. However, given the severity of some local districts' financial situation and the apparent inability of some local boards of education to implement the district's Deficit Elimination Plan, I have asked my staff to talk with our attorneys in the Attorney General's Office regarding the process that would be followed should the need arise.

ADDITIONAL SELECTED DISTRICT INFORMATION

PONTIAC SCHOOL DISTRICT

Because the Pontiac School District had not complied with the law in submitting its audit by the November 15 annual deadline and the Financial Information Database (FID) information due to the Center for Educational Performance and Information (CEPI) by the same deadline was not complete, I withheld Pontiac's state aid beginning with the December 20, 2012 payment. The district submitted the required information on March 18, 2013, and I released the December 2012 through February 2013 state aid payments. It was through this information that we learned the deficit had increased from a projected \$26 million in the district's previously approved DEP to \$37.6 million. Because the Pontiac School District had not complied with the law in submitting a revised, approvable DEP, I withheld Pontiac's state aid beginning with the March 20, 2013 payment. Both the March and April 2013 payments were withheld. Pontiac submitted its revised DEP which I approved on May 13, 2013 enabling me to release the March and April payments.

Because of the severity of the deficit increase, on April 23, 2013 I notified the district (as required in law) that a Preliminary Review under PA436 was going to be initiated. The law requires that I complete the Preliminary Review process within 30 days, including allowing 5 days for the district to comment on my Interim Report; my team and I completed the process early. The Final Report of the Preliminary Review was forwarded to the Local Emergency Financial Assistance Loan Board on May 20, 2013. PA436 states that the Board has 20 days, or by June 10, 2013, to determine if probable financial stress exists. (NOTE: I have been notified that the Board will meet on June 6, 2013 at 11 a.m.)

BUENA VISTA PUBLIC SCHOOLS

As noted in my second report, the MDE team met with Buena Vista School District administrators, board members and union representatives on February 5, 2013. During that meeting, we learned for the first time that the district had not been running the Wolverine Secure Treatment Center since the 2011-12 school year but had been receiving Section 53a categorical funds for the program in each of the 2012-13 state aid payments. Once the MDE Special Education Program Office removed the grant allowance for the Treatment Center, the district had been overpaid by approximately \$580,000. MDE began recouping the overpayment of state aid beginning with the April 2013 payment. Due to an adjustment in taxable value by the Saginaw County treasurer, additional state aid funds were available to the district and the remaining

overpayment amount was recouped in May 2013. The remainder of that month's payment was available for the district. On May 15, 2013, I approved the district's DEP with a significant Special Condition that requires MDE to release the district's remaining state school aid funds for the school year ending June 30, 2013 only as needed to meet critical expenditures, including all payroll costs. The district received payments under this Special Condition on May 29 and May 31, 2013 (NOTE: Two payments became necessary as the district got additional information on staffing and actual payroll needs.)

On May 28, 2013, I granted the local board of education's May 9, 2013 Resolution requesting that I begin the Preliminary Review process under PA436. The Preliminary Review began on May 30, 2013; I anticipate an Interim Report will be shared with the district for comment in early June. By law, my Final Report of the Preliminary Review must be submitted to the Local Emergency Financial Assistance Loan Board on or before June 20, 2013.

It should be noted that I made an emergency trip to Buena Vista on Monday, May 13, 2013 to meet with the district and intermediate district superintendents due to the urgency of keeping the students in school for the remainder of the school year. The outcome of this meeting was what has been called "Plan B" or using federal education dollars to provide learning opportunities for students in the event that state school aid would not be available. This "backup plan" was not necessary when the local board revised and submitted a DEP that I was able to approve in order to release state aid. The district plans to end its school year on June 26, 2013 which provides the required days and hours of instruction as required by law.

EARLY WARNING INDICATORS

In both my December 2012 and February 2013 reports to this group, I highlighted the need for districts to use existing data and systems to assure that they and, because Michigan is a locally controlled state, their respective boards of education, are aware of budget and potential deficit issues. We continue to encourage districts to evaluate their data on a regular basis and use systems such as Munetrix and Massada. In addition, the Center for Educational Performance and Information (CEPI), housed in our State Budget Office, anticipates the state system it is developing will be ready for district use in the Fall of 2013. This new state system will provide five-year financial trend information. Given that these systems are or will be in place, we hope that local districts and boards of education take the data they provide into consideration as district budgets are developed and approved by the June 30 annual date stipulated in law. We anticipate knowing if additional districts will be in deficit based on these annual budgets by the end of July and will work with them to develop and submit a Deficit Elimination Plan.

DEFICIT DISTRICT DATA

Attachments A and B provide the financial analysis for FY2012-13. Attachment C provides the sections in law related to district penalties.

Additional questions about this report should be directed to Glenda Rader, Office of State Aid and School Finance, at 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
PROJECTED 2012-2013**

An analysis of the projected 2012-2013 (fiscal year 2013) financial data has been completed for those districts that ended FY 2012 with a deficit. The analysis is conducted using data collected from DEPs and required monthly budget control reports.

Attachment B lists the 49 districts and public school academies that ended fiscal year (FY) 2012 in a deficit position. There were 48 such districts in June 2011. Attachment B also indicates the general status with regard to projected changes in the financial situation between June 30, 2012 and June 30, 2013.

Of the 49 districts that ended FY2012 in deficit, ten (10) are projecting to successfully eliminate their deficit by the end of FY2013 (Attachment B, Category 1). Twenty-three districts (23) are projecting to reduce their deficit in FY2013 (Attachment B, Category 2). Sixteen (16) districts are projecting to increase their deficit in FY2013 (Attachment B, Category 3). At this point, MDE is aware of only six (6) districts that began FY 2013 with a positive fund balance and anticipate ending the year with a deficit fund balance (Attachment B, Category 4). That number is likely to change as the year progresses and the districts submit their annual financial data due on November 15, 2013.

The four categories have changed as follows:

1. The number of districts that project to emerge from deficit at the end of the year decreased from 11 to 10;
2. The number of districts that project a smaller deficit decreased from 25 to 23;
3. The number of districts that project a larger deficit increased from 13 to 16;
4. Three additional districts project a deficit balance at the end of the year (Muskegon, Romulus, Aisha Shule/DuBois Preparatory Academy).

The districts that have changed category are summarized below:

	From Category	To Category
Vanderbilt Area School District	1	2
Northpointe Academy	1	2
Ashley Community Schools	2	3
North Adams-Jerome Public Schools	2	1
Buena Vista Schools	2	3
Bridgeport Spaulding Community School District	2	3
Willow Run Community Schools	2	3
Brighton Area Schools	3	2
Muskegon Public Schools	na	4
Romulus Community Schools	na	4
Aisha Shule/DuBois Preparatory Academy	na	4

ISD/School Name	Category	June 2011 Fund Balance	June 2012 Fund Balance	Projected 6/30/2013 Fund Balance / (Deficit) Per Monthly Report	Projected 2013 GF Revenues	% Deficit is of Revenues
CATEGORY 1						
Districts that are projecting to emerge from deficit by June 30, 2013						
Traverse Bay Area ISD						
Bellaire Public Schools	1	\$6,550	(\$41,116)	\$5,904	\$3,863,775	0.15%
Barry ISD						
Hastings Area School System	1	\$340,780	(\$622,606)	\$490,138	\$22,494,053	2.18%
Calhoun						
Athens Area Schools	1	\$264,046	(\$21,185)	\$36,976	\$4,978,981	0.74%
Cheboygen-Otsego-Presque Isle						
Mackinaw City Public Schools	1	\$218,374	(\$23,914)	\$6,086	\$2,263,584	0.27%
Dickinson-Iron ISD						
North Dickinson County Schools	1	\$18,014	(\$126,171)	\$6,993	\$2,574,510	0.27%
Genesee ISD						
Westwood Heights Schools	1	(\$124,340)	(\$155,732)	\$457,517	\$8,824,871	5.18%
Hillsdale ISD						
North Adams-Jerome Public Schools	1	\$170,611	(\$114,796)	\$50,801	\$3,532,793	1.44%
Iosco RESA						
Hale Area Schools	1	(\$650,461)	(\$195,203)	\$46,202	\$4,885,449	0.95%
Marquette Alger RESA						
North Star Academy	1	(\$91,710)	(\$28,222)	\$17,704	\$2,390,636	0.74%
Muskegon						
Muskegon Heights School District	1	(\$8,473,001)	(\$11,896,251)	\$267,419	\$13,876,837	1.93%
CATEGORY 2						
Districts that began FY2013 in deficit and project to end the year with a reduced deficit.						
Berrien						
Benton Harbor Area Schools	2	(\$16,076,758)	(\$16,099,422)	(\$13,956,754)	\$31,843,290	-43.83%
Calhoun						
Bellevue Community Schools	2	(\$646,910)	(\$254,126)	(\$235,843)	\$5,529,275	-4.27%
Copper Country						
Hancock Public Schools	2	(\$840,667)	(\$770,596)	(\$694,015)	\$6,564,192	-10.57%
Livingston ESA						
Brighton Area Schools	2	(\$7,890,905)	(\$7,388,781)	(\$6,143,959)	\$52,165,549	-11.78%
Macomb						
East Detroit Public Schools	2	(\$7,860,591)	(\$7,545,877)	(\$6,003,332)	\$36,782,044	-16.32%
Clintondale Community Schools	2	(\$4,993,071)	(\$4,772,258)	(\$3,680,777)	\$30,293,892	-12.15%
Mt. Clemens Community Schools	2	(\$3,847,845)	(\$4,790,635)	(\$3,902,649)	\$19,110,760	-20.42%
New Haven Community Schools	2	(\$460,592)	(\$323,332)	(\$112,200)	\$11,902,376	-0.94%
Mason-Lake ISD						
Mason County Eastern Schools	2	(\$231,345)	(\$251,542)	(\$45,689)	\$4,135,502	-1.10%
Newaygo County						
White Cloud School District	2	(\$460,495)	(\$693,720)	(\$676,791)	\$9,622,236	-7.03%
Oakland						
Pontiac School District	2	(\$24,534,392)	(\$37,683,487)	(\$29,985,602)	\$75,780,316	-39.57%
Avondale School District	2	(\$989,233)	(\$1,338,397)	(\$1,113,517)	\$35,965,094	-3.10%
Oak Park School District	2	(\$7,902,891)	(\$5,557,347)	(\$3,559,830)	\$49,087,245	-7.25%
Cheboygen-Otsego-Presque Isle						
Vanderbilt Area School District	2	(\$95,872)	(\$155,449)	(\$91,374)	\$1,389,711	-6.58%
Saginaw ISD						
Saginaw City School District	2	(\$1,417,986)	(\$5,100,750)	(\$4,982,125)	\$82,005,816	-6.08%

ISD/School Name	Category	June 2011 Fund Balance	June 2012 Fund Balance	Projected 6/30/2013 Fund Balance / (Deficit) Per Monthly Report	Projected 2013 GF Revenues	% Deficit is of Revenues
CATEGORY 2, continued						
Districts that began FY2013 in deficit and project to end the year with a reduced deficit.						
Wayne						
Detroit Public Schools	2	(\$283,929,316)	(\$76,345,661)	(\$72,283,849)	\$720,283,139	-10.04%
Hamtramck Public Schools	2	(\$4,961,129)	(\$3,776,824)	(\$2,737,485)	\$30,316,670	-9.03%
Highland Park City Schools	2	(\$11,251,484)	(\$12,170,066)	(\$6,613,491)	\$9,950,343	-66.46%
Redford Union Schools	2	(\$1,757,017)	(\$4,114,455)	(\$3,296,436)	\$27,015,143	-12.20%
River Rouge School District	2	(\$2,987,237)	(\$3,427,203)	(\$1,519,859)	\$16,329,006	-9.31%
Westwood Community School District	2	(\$6,172,286)	(\$6,240,031)	(\$6,142,198)	\$24,905,172	-24.66%
Ecorse Public School District	2	(\$507,075)	(\$1,536,593)	(\$1,463,341)	\$10,912,511	-13.41%
Northpointe Academy	2	(\$266,456)	(\$20,840)	(\$2,777)	\$2,854,982	-0.10%
CATEGORY 3						
Districts that began FY2013 in deficit and project to end the year with a greater deficit.						
Genesee ISD						
Flint Community Schools	3	(\$3,694,744)	(\$4,044,840)	TBD	TBD	
Gratiot-Isabella RESD						
Ashley Community Schools	3	\$14,760	(\$164,856)	(\$194,373)	\$2,440,146	-7.97%
Macomb						
Van Dyke Public Schools	3	\$85,428	(\$741,835)	(\$1,722,347)	\$30,765,097	-5.60%
Menominee ISD						
Menominee Area Public Schools	3	\$718,741	(\$129,287)	(\$388,951)	\$12,549,103	-3.10%
Monroe County ISD						
Bedford Public Schools	3	\$998,698	(\$518,799)	(\$1,183,105)	\$38,373,119	-3.08%
Oakland						
School District of the City of Hazel Park	3	(\$2,343,202)	(\$1,527,137)	(\$3,412,853)	\$41,119,054	-8.30%
Saginaw ISD						
Buena Vista Schools	3	(\$51,593)	(\$1,028,388)	(\$3,685,046)	\$6,477,134	-56.89%
Bridgeport Spaulding Community School District	3	(\$954,339)	(\$2,561,221)	(\$2,998,829)	\$13,663,018	-21.95%
Shiawassee RESD						
Perry Public Schools	3	\$196,723	(\$1,083,873)	(\$1,580,894)	\$11,371,400	-13.90%
Washtenaw						
Ypsilanti Public Schools	3	(\$4,901,940)	(\$9,014,364)	(\$9,103,337)	\$38,302,287	-23.77%
Willow Run Community Schools	3	(\$1,702,257)	(\$2,916,684)	(\$3,001,190)	\$18,636,545	-16.10%
Wayne						
Dearborn Heights School District #7	3	\$271,561	(\$991,174)	(\$1,401,027)	\$23,398,944	-5.99%
School District of the City of Inkster	3	(\$10,507,942)	(\$12,787,350)	(\$15,851,791)	\$26,083,379	-60.77%
Taylor School District	3	\$3,648,718	(\$5,941,851)	(\$9,335,086)	\$62,924,127	-14.84%
Southgate Community Schools	3	(\$1,376,678)	(\$3,249,656)	(\$4,914,868)	\$43,331,125	-11.34%
HEART Academy	3	\$22,920	(\$93,780)	(\$337,769)	\$1,568,444	-21.54%
CATEGORY 4						
Districts that began FY2013 with a positive fund balance but project to end the year in deficit.						
Livingston ESA						
Pinckney Community Schools	4	\$2,767,666	\$865,569	(\$1,905,731)	\$31,565,266	-6.04%
Macomb						
South Lake Schools	4	\$1,726,982	\$1,200,175	(\$1,659,151)	\$19,941,540	-8.32%
Muskegon						
Muskegon Public Schools	4	\$2,617,622	\$1,295,727	(\$2,587,549)	\$53,392,095	-4.85%
Van Buren ISD						
Bangor Public Schools	4	\$618,355	\$154,974	(\$812,119)	\$10,752,087	-7.55%
Wayne						
Romulus Community Schools	4	\$3,011,109	\$2,393,436	(\$806,704)	\$35,413,534	-2.28%
Aisha Shule/DuBois Preparatory Academy	4	\$170,227	\$25,594	TBD	TBD	
SUMMARY:						
No. of Districts	Cat.	Description				
10	1	Districts that are projecting to emerge from deficit by June 30, 2013				
23	2	Districts that began FY2013 in deficit and project to end the year with a reduced deficit.				
16	3	Districts that began FY2013 in deficit and project to end the year with a greater deficit.				
6	4	Districts that began FY2013 with a positive fund balance but project to end the year in deficit.				

Michigan Compiled Laws Penalties the SPI and His Staff May Impose on Deficit School Districts

Withholding State School Aid – MCL 388.1702(1)

388.1702 Deficit budget or operating deficit prohibited; release of withheld state aid payments;

(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.**

Set special conditions for the deficit district to meet – MCL 388.1702(5)

(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.**

MCL Report violations related to deficit spending to Attorney General – MCL 141.439 – 141.440, 388.1761

141.439(1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.

141.440 For local and intermediate school districts, the report of a violation shall be filed with the state superintendent of public instruction instead of the state treasurer. The attorney general shall review the report and initiate appropriate action against the chief administrative officer, fiscal officer, administrative officer, employee, or member of the legislative body. For the use and benefit of the local unit, the attorney general or prosecuting attorney may institute a civil action in a court of competent jurisdiction for the recovery of funds of a local unit, disclosed by an examination to have been illegally expended or collected as a result of malfeasance and not accounted for as provided in sections 17 to 19, and for the recovery of public property disclosed to have been converted or misappropriated.

388.1761 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 \$1,500.00, or both.