STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

October 3, 2013

Harlan Goodrich, Secretary
Local Emergency Financial Assistance Loan Board
Local Audit and Finance Unit
Michigan Department of Treasury
Lansing, MI 48909

Dear Mr. Goodrich:

As required in § 4(2) of P.A. 436 of 2012, the Local Financial Stability and Choice Act, I am providing a Final Report of my Preliminary Review of Ecorse Public Schools to the Local Emergency Financial Assistance Loan Board.

An Interim Report of the Preliminary Review was sent to Ecorse Public Schools on September 23, 2013. The district was given five days to respond to that Interim Report. Copies of both the Interim Report of the Preliminary Review (Attachment 1) and the Ecorse Public Schools' response (Attachment 2) are attached.

Questions may be directed to Dan Hanrahan at HanrahanD@Michigan.gov or by fax to (517) 241-0196.

Sincerely,

Mike Flanagan
State Superintendent

Attachments

cc: Senator Hoon-Yung Hopgood, 8th District
Representative Rashida Tlaib, 6th District
Phyllis Cook, President, Ecorse Board of Education
Lamar C. Tidwell, Vice President, Ecorse Board of Education
April Ackerman-Elias, Secretary, Ecorse Board of Education

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Shaunda Miller-Giles, Treasurer, Ecorse Board of Education
Lynda S. Jackson, Trustee, Ecorse Board of Education
Carol Salisbury, Trustee, Ecorse Board of Education
Alean Nixon, Trustee, Ecorse Board of Education
Thomas Parker, Superintendent, Ecorse Public Schools
Geri Mann, Business Manager, Ecorse Public Schools
Christopher A. Wigent, Superintendent, Wayne RESA
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Dept. of Education

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
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RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: October 3, 2013

TO: Local Emergency Financial Assistance Loan Board

FROM: Mike Flanagan, State Superintendent

SUBJECT: Final Report - Preliminary Review of Ecorse Public Schools

The following represents the Final Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (PA 436 of 2012) for Ecorse Public Schools (the "District"). We appreciate the level of cooperation received from the District's administration during this process.

I. Background

In a letter dated August 19, 2013, I advised Ecorse Public Schools that I was approving the Deficit Elimination Plan (DEP) but that, pursuant to my authority vested under PA 436 of 2012, I was also initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within Ecorse Public Schools (Attachments A and B). §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the conditions listed in §4(1) are met. The Preliminary Review of Ecorse Public Schools resulted from the following conditions enumerated in §4(1) of the Act: "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

In addition to the conditions above that initiated the Preliminary Review, the District also meets the condition in §4(1)(s) which references other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically, as provided by law, I granted the District an extension of three years (until June 30, 2013) to eliminate the deficit beyond the two-year requirement. The District was unable to eliminate the deficit by that extended due date and requested an additional year to June 30, 2014. I granted that additional year when I approved the District's revised Deficit Elimination Plan

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(DEP) with contingencies on August 19, 2013, but feel that the need for additional time to eliminate the deficit may indicate a degree of financial stress.

The District's DEP was approved with the understanding that I was initiating this Preliminary Review under PA 436 of 2012. The Plan as submitted would take the District out of deficit in 2013-14 if carried out with fidelity to its strategies.

II. Final Report of Findings

The Michigan Department of Education (the "Department") has developed critical factors to determine whether probable financial stress might exist in a school district. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

1) The district has been in deficit for three or more consecutive years (including the current year); and

2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and

3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:

    a) Lack of written policies and procedures or failure to follow the written policies and procedures

    b) Poor cash management

    c) Failure to provide Personnel Activity Reports (PAR) for employees paid with federal funds

    d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)

    e) Use of grant funds on unallowable expenditures

    f) Going Concern/Qualified Opinion; and

4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:

    a) A deficit increase from the previous year

b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of Deficit Elimination Plans (DEP), delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)

c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or

5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed Ecorse Public Schools with regard to the above five (5) factors. The results of the assessment are as follows:

1) Ecorse Public Schools has been in deficit since it ended the 2003-2004 fiscal year with a $135,000 deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $1.5 million. The District projected that it will emerge from deficit in the 2013-14 fiscal year.

2) Ecorse Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 14%. The percentage nearly meets the Department's parameter of a negative 15% to indicate concern.

3) Ecorse Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 did not include any material internal control weaknesses.

4) Ecorse Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from $135,000 on June 30, 2004 to an unaudited $1.5 million on June 30, 2013. Additionally, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

5) The District was delinquent in retirement contributions to the Michigan Public School Employees Retirement System in the amount of $91,765.75 for the period ending August 31, 2013 as of September 18, 2013.

An Interim Report detailing my Preliminary Review was sent to Ecorse Public Schools on September 23, 2013. The District was given five days to respond to that report. Copies of both the Interim Report (Attachment 1) and the response from Ecorse Public Schools (Attachment 2) are attached.

As the state financial authority for school districts, I am forwarding this Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board pursuant to the language in § 4(2) of PA 436 of 2012.

Questions should be directed to Dan Hanrahan, Director of the Office of State Aid and School Finance, at hanrahand@michigan.gov or by fax to (517) 241-0196.

cc: Senator Hoon-Yung Hopgood, 8th District
Representative Rashida Tlaib, 6th District
Phyllis Cook, President, Ecorse Board of Education
Lamar C. Tidwell, Vice President, Ecorse Board of Education
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STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

August 19, 2013

Thomas Parker, Superintendent
Phyllis Cook, President, Ecorse Board of Education
Ecorse Public Schools
27225 West Outer Drive
Ecorse, MI 48229-1749

Dear Superintendent Parker and Board President Cook:

Thank you for the submission of your Deficit Elimination Plan (DEP) as developed by the District and approved by the local board of education. The Michigan Department of Education (MDE) has approved this Plan, which includes a sixth year, based on contingencies listed below. Attached is a one-page summary of the DEP from your electronic submission. In addition to the contingencies listed below, we have several financial concerns that have prompted me to begin the PA 436 (Local Financial Stability and Choice Act) process with Ecorse Public Schools. Notice of that will follow in a separate letter.

The DEP developed by the District is largely dependent on both staff reductions and wage concessions. MDE expects that the projected staff reductions will take place according to the schedule detailed in the District's Plan. Further, MDE expects that if the District is unable to realize its own planned reductions, including staffing and the projected wage concessions, as outlined in the Plan, it will immediately institute other expenditure reductions in order to maintain the schedule of deficit elimination detailed in the DEP.

Additionally, this Plan is dependent upon a general increase in enrollment of 25 FTEs. MDE expects that if the District is unable to realize its projected enrollment growth, it will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

Finally, this Plan is dependent upon an additional increase in enrollment of 50 FTEs through the addition of a new alternative education program. MDE expects that if the District is unable to realize this projected enrollment increase, it will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

MDE approval of this DEP is granted based on the following contingencies:

- The District is required to reduce projected expenditures to the levels detailed in this DEP. If the District is unable to achieve its planned staff reductions and wage concessions, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in this Plan. Failure to meet the targeted deficit reduction in any year of this Plan will invalidate this Plan.

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- If the District is unable to maintain the enrollment projections detailed in the Plan, it will be expected to immediately reduce expenditures in order to meet the fund balance targets in this Plan.

- The District is required to post on its website a link to this approved DEP within 30 days of this approval letter. The link should be posted on the transparency web page in the same area as the current budget.

- The District is required to submit any revisions made to the current year budget along with the corresponding local board of education resolution adopting the revised budget. If the budget revision impacts the DEP, the DEP must be revised and submitted no later than one week after the budget and DEP are adopted by the board.

- The District is required by law to submit Monthly Budgetary Control Reports to MDE using the tab labeled “Month1Summary2013” of the electronic DEP form used to prepare this DEP.

- The District will be required to submit its pupil count information no later than one week after the fall count.

If significant changes occur which would invalidate this DEP as approved, the District must notify MDE immediately.

Please contact Jeff Kolb at (517) 373-1908 or kolbj2@michigan.gov, or Chad Urchike at (517) 335-1261 or urchikec1@michigan.gov, if you have any questions.

I look forward to your continued submissions and cooperation.

Sincerely,

Mike Flanagan
State Superintendent

Attachment

cc: Lamar C. Tidwell, Vice President, Ecorse Board of Education
April Ackerman-Elias, Secretary, Ecorse Board of Education
Shaunda Miller-Giles, Treasurer, Ecorse Board of Education
Lynda S. Jackson, Trustee, Ecorse Board of Education
Carol Salisbury, Trustee, Ecorse Board of Education
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Geri Mann, Business Manager, Ecorse Public Schools
Chris Wigent, Superintendent, Wayne RESA
Steve Ezikian, Deputy Superintendent, Wayne RESA
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education
Local Audits Unit, Michigan Treasury Department

ECORSE PUBLIC SCHOOLS

Account		Preliminary Actual 2012-13	Board Adopted Budget 2013-14	Yearly Increase (Decrease)	% Increase (Decrease)
	Beginning Fund Equity:	**($1,532,025)**	**($1,525,821)**		
	Add: Revenues				
11x, 12x	Local Sources	$1,597,457	$1,134,318	($463,139)	-28.99%
51x	Local Rec'd Thru Another Public Sch.	$0	$0	$0	0.00%
2xx	Other Political Sub.	$0	$0	$0	0.00%
3xx	State Sources	$7,543,989	$7,665,655	$121,666	1.61%
4xx	Federal Sources	$1,281,899	$1,382,204	$100,305	7.82%
52x-6xx	Incoming Transfers & Other	$2,500	$3,750	$1,250	50.00%
	TOTAL REVENUES,ETC.	**$10,425,845**	**$10,185,927**	($239,918)	-2.30%
	TOTAL RESOURCES AVAILABLE	**$8,893,820**	**$8,660,105**	($233,714)	-2.63%
	Less: Expenditures				
1xx	Classroom Inst.	$5,071,462	$4,274,212	($797,250)	-15.72%
	Support Services:				
21x	Pupil	$423,593	$362,809	($60,784)	-14.35%
22x	Inst. Staff	$366,095	$535,286	$169,191	46.22%
23x	Gen. Adm.	$893,208	$447,895	($445,313)	-49.86%
24x	Sch. Adm.	$599,481	$519,220	($80,261)	-13.39%
25x	Business	$121,488	$162,454	$40,966	33.72%
26x	Operation & Maintenance	$1,928,480	$1,426,211	($502,269)	-26.04%
27x	Transportation	$547,618	$447,618	($100,000)	-18.26%
28x	Central	$65,843	$60,418	($5,425)	-8.24%
29X	Other	$4,100	$281,988	$277,888	6777.76%
3xx	Community Services	$142,078	$10,762	($131,316)	-92.43%
41,42,43	Outgoing Transfers	$47,055	$45,000	($2,055)	-4.37%
45x	Facilities Acq	$0	$0	$0	0.00%
51x	Debt Service	$154,900	$0	($154,900)	-100.00%
6xx	Fund Modifications	$54,240	$55,000	$760	1.40%
	TOTAL EXP. & OUTGOING TRANSFE	**$10,419,641**	**$8,628,873**	**($1,790,768)**	-17.19%
	ENDING FUND BALANCE	**($1,525,821)**	**$31,232**	$1,557,054	-102.05%

Attachment B

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

August 19, 2013

Thomas Parker, Superintendent
Phyllis Cook, President, Ecorse Board of Education
Ecorse Public Schools
27225 West Outer Drive
Ecorse, MI 48229-1749

Dear Superintendent Parker and Board President Cook:

On July 29, 2013, staff from the Ecorse Public Schools met with members of my staff to review the district's deficit situation. At that meeting, it was agreed that the district would submit a revised Deficit Elimination Plan (DEP) by August 6, 2013 (later extended to August 7, 2013) and that Michigan Department of Education (MDE) staff would review that DEP as quickly as possible. We received the revised DEP by the extended due date and have completed our review. The revised DEP is approved with contingencies; formal approval is in a separate letter to you dated August 19, 2013.

I remain concerned about the financial situation of the district. The district has been in deficit since June 30, 2004. As reiterated in the July 29, 2013 meeting, the five (5) year plan previously approved by MDE required the district to eliminate the deficit by June 30, 2013. The revised Plan, submitted by the August 7, 2013 deadline, does not adhere to the previous timeframe. Rather, it delays the deficit elimination until June 30, 2014, a sixth year.

Consequently, I am exercising my authority under Section 4(1)(a) of Public Act 436 of 2012 (PA 436, the Local Fiscal Stability and Choice Act) to initiate a Preliminary Review of the district's financial operations to determine the level of financial stress in the district. Section 4(2) of PA 436 requires that I provide specific written notification of the Preliminary Review prior to the review taking place; this letter meets that requirement.

Specifically, I am initiating this action based on the following criteria from Section 4(1): "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

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To be clear, this is a Preliminary Review at this point. It does not automatically mean that the end result would be for the Governor to declare a financial emergency in the district. The law provides for certain additional steps before that could occur. I must provide a Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team for the district.

The Review Team will provide a report to the Governor, generally within 60 days of commencing its review. Should both the Review Team and the Governor determine that a financial emergency exists in the Ecorse Public Schools, the local board of education would be required to choose one of the following four (4) options to address the financial emergency:

1) Consent Agreement
2) Emergency Manager
3) Neutral Evaluation Process
4) Chapter 9 Bankruptcy

You will be contacted by Carol Wolenberg, Deputy Superintendent, and Dan Hanrahan, Director of State Aid and School Finance, on Monday, August 26, 2013 to discuss the PA 436 process. The Preliminary Review will officially begin on Tuesday, September 3, 2013. I would strongly recommend that you meet with your team prior to this contact to determine if any circumstances, such as additional expenditure adjustments, may have changed that would be helpful as we work with you during the Preliminary Review. If you have questions, please contact Ms. Wolenberg at 517-241-0062 (wolenbergc@michigan.gov) or Mr. Hanrahan at 517- 335-0521 (hanrahand@michigan.gov).

Sincerely,

Mike Flanagan

Mike Flanagan
State Superintendent

cc: Andy Dillon, State Treasurer
Christopher A. Wigent, Superintendent, Wayne RESA
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education

Attachment 1

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

DATE: September 23, 2013

TO: Thomas Parker, Superintendent, Ecorse Public Schools
Phyllis Cook, President, Ecorse Board of Education

FROM: Mike Flanagan, State Superintendent

SUBJECT: Interim Report - Preliminary Review of Ecorse Public Schools

The following represents the Interim Report of findings of the Preliminary Review under the Local Financial Stability and Choice Act (PA 436 of 2012) for Ecorse Public Schools (the "District"). We appreciate the level of cooperation received from the District's administration during this process.

I. Background

In a letter dated August 19, 2013, I advised Ecorse Public Schools that I was approving the Deficit Elimination Plan (DEP) but that, pursuant to my authority vested under PA 436 of 2012, I was also initiating a Preliminary Review of the District's finances to determine the existence of probable financial stress within Ecorse Public Schools (Attachments A and B). §4(1) of the Act states that the state financial authority of a local government (the State Superintendent in the case of a school district) may conduct a Preliminary Review to determine the existence of a local government financial problem if one or more of the conditions listed in §4(1) are met. The Preliminary Review of Ecorse Public Schools resulted from the following conditions enumerated in §4(1) of the Act: "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

In addition to the conditions above that initiated the Preliminary Review, the District also meets the condition in §4(1)(s) which references other facts or circumstances that in the sole discretion of the Superintendent of Public Instruction are indicative of probable financial stress. Specifically, as provided by law, I granted the District an extension of three years (until June 30, 2013) to eliminate the deficit beyond the two-year requirement. The District was unable to eliminate the deficit by that extended due date and requested an additional year to June 30, 2014. I granted

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that additional year when I approved the District's revised Deficit Elimination Plan (DEP) with contingencies on August 19, 2013, but feel that the need for additional time to eliminate the deficit may indicate a degree of financial stress.

The District's DEP was approved with the understanding that I was initiating this Preliminary Review under PA 436 of 2012. The Plan as submitted would take the District out of deficit in 2013-14 if carried out with fidelity to its strategies.

II. Interim Report of Findings

The Michigan Department of Education (the "Department") has developed critical factors to determine whether probable financial stress might exist in a school district. The process calls for a review of a district's financial operation related to five (5) critical factors. The factors are:

1) The district has been in deficit for three or more consecutive years (including the current year); and

2) The district's existing deficit is greater than 15% of general fund revenues excluding incoming transfers; and

3) A fiscal review by one of the Department's program offices or an external auditor has revealed one or more material internal control weaknesses as evidenced by notes/findings in the financial audit related to:

    a) Lack of written policies and procedures or failure to follow the written policies and procedures

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    c) Failure to provide Personnel Activity Reports (PAR) for employees paid with federal funds

    d) History of spending outside the appropriations established by the local school board (Violation of Uniform Budgeting and Accounting Act)

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    f) Going Concern/Qualified Opinion; and

4) The district has shown unsatisfactory progress in eliminating a deficit. This is determined by identifying one or more of the following conditions:

   a) A deficit increase from the previous year

   b) Lack of cooperation from the district in submitting deficit information (i.e., late submission of Deficit Elimination Plans (DEP), delinquent return of phone calls or correspondence relating to the DEP, chronic late submission of Monthly Budgetary Control Reports)

   c) History of supplying the Department with DEP information that is inaccurate or inconsistent with actual revenues and expenditures at year end; and/or

5) District's failure to comply with bond or note covenants, failure to make pension fund deposits, failure to make payroll, and/or closure of school prior to the end of the school year.

The Department assessed Ecorse Public Schools with regard to the above five (5) factors. The results of the assessment are as follows:

1) Ecorse Public Schools has been in deficit since it ended the 2003-2004 fiscal year with a $135,000 deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $1.5 million. The District projected that it will emerge from deficit in the 2013-14 fiscal year.

2) Ecorse Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 14%. The percentage nearly meets the Department's parameter of a negative 15% to indicate concern.

3) Ecorse Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 did not include any material internal control weaknesses.

4) Ecorse Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from $135,000 on June 30, 2004 to an unaudited $1.5 million on June 30, 2013. Additionally, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

5) The District was delinquent in retirement contributions to the Michigan Public School Employees Retirement System in the amount of

$91,765.75 for the period ending August 31, 2013 as of September 18, 2013.

III. Next Steps

As the state financial authority for school districts, I am forwarding this Interim Report to Ecorse Public Schools pursuant to the language in §4(2) of PA 436. The District may provide comments on this Interim Report within five (5) days after the date that this Report is provided. Please direct these comments to Dan Hanrahan at hanrahand@michigan.gov and Carol Wolenberg at wolenbergc@michigan.gov or by fax to (517) 241-0196. A Final Report of the Preliminary Review incorporating the District's comments will be provided to the District and the Local Emergency Financial Assistance Loan Board on or before the 30-day timeframe required in law or no later than October 3, 2013. The Local Emergency Financial Assistance Loan Board will determine if probable financial stress exists for the District.

cc: Senator Hoon-Yung Hopgood, 8th District
Representative Rashida Tlaib, 6th District
Carol Wolenberg, Deputy Superintendent, Michigan Dept. of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Dept. of Education

Attachment A

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

August 19, 2013

Thomas Parker, Superintendent
Phyllis Cook, President, Ecorse Board of Education
Ecorse Public Schools
27225 West Outer Drive
Ecorse, MI 48229-1749

Dear Superintendent Parker and Board President Cook:

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The DEP developed by the District is largely dependent on both staff reductions and wage concessions. MDE expects that the projected staff reductions will take place according to the schedule detailed in the District's Plan. Further, MDE expects that if the District is unable to realize its own planned reductions, including staffing and the projected wage concessions, as outlined in the Plan, it will immediately institute other expenditure reductions in order to maintain the schedule of deficit elimination detailed in the DEP.

Additionally, this Plan is dependent upon a general increase in enrollment of 25 FTEs. MDE expects that if the District is unable to realize its projected enrollment growth, it will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

Finally, this Plan is dependent upon an additional increase in enrollment of 50 FTEs through the addition of a new alternative education program. MDE expects that if the District is unable to realize this projected enrollment increase, it will immediately institute expenditure reductions in order to maintain the schedule detailed in the DEP.

MDE approval of this DEP is granted based on the following contingencies:

- The District is required to reduce projected expenditures to the levels detailed in this DEP. If the District is unable to achieve its planned staff reductions and wage concessions, it will be expected to immediately reduce expenditures in other categories in order to meet the fund balance targets in this Plan. Failure to meet the targeted deficit reduction in any year of this Plan will invalidate this Plan.

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If significant changes occur which would invalidate this DEP as approved, the District must notify MDE immediately.

Please contact Jeff Kolb at (517) 373-1908 or kolbj2@michigan.gov, or Chad Urchike at (517) 335-1261 or urchikec1@michigan.gov, if you have any questions.

I look forward to your continued submissions and cooperation.

Sincerely,

Mike Flanagan
State Superintendent

Attachment

cc: Lamar C. Tidwell, Vice President, Ecorse Board of Education
April Ackerman-Elias, Secretary, Ecorse Board of Education
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Local Audits Unit, Michigan Treasury Department

ECORSE PUBLIC SCHOOLS

Account		Preliminary Actual 2012-13	Board Adopted Budget 2013-14	Yearly Increase (Decrease)	% Increase (Decrease)
	Beginning Fund Equity:	**($1,532,025)**	**($1,525,821)**		
	Add: Revenues				
11x, 12x	Local Sources	$1,597,457	$1,134,318	($463,139)	-28.99%
51x	Local Rec'd Thru Another Public Sch.	$0	$0	$0	0.00%
2xx	Other Political Sub.	$0	$0	$0	0.00%
3xx	State Sources	$7,543,989	$7,665,655	$121,666	1.61%
4xx	Federal Sources	$1,281,899	$1,382,204	$100,305	7.82%
52x-6xx	Incoming Transfers & Other	$2,500	$3,750	$1,250	50.00%
	TOTAL REVENUES,ETC.	**$10,425,845**	**$10,185,927**	($239,918)	-2.30%
	TOTAL RESOURCES AVAILABLE	**$8,893,820**	**$8,660,105**	($233,714)	-2.63%
	Less: Expenditures				
1xx	Classroom Inst.	$5,071,462	$4,274,212	($797,250)	-15.72%
	Support Services:				
21x	Pupil	$423,593	$362,809	($60,784)	-14.35%
22x	Inst. Staff	$366,095	$535,286	$169,191	46.22%
23x	Gen. Adm.	$893,208	$447,895	($445,313)	-49.86%
24x	Sch. Adm.	$599,481	$519,220	($80,261)	-13.39%
25x	Business	$121,488	$162,454	$40,966	33.72%
26x	Operation & Maintenance	$1,928,480	$1,426,211	($502,269)	-26.04%
27x	Transportation	$547,618	$447,618	($100,000)	-18.26%
28x	Central	$65,843	$60,418	($5,425)	-8.24%
29X	Other	$4,100	$281,988	$277,888	6777.76%
3xx	Community Services	$142,078	$10,762	($131,316)	-92.43%
41,42,43	Outgoing Transfers	$47,055	$45,000	($2,055)	-4.37%
45x	Facilities Acq	$0	$0	$0	0.00%
51x	Debt Service	$154,900	$0	($154,900)	-100.00%
6xx	Fund Modifications	$54,240	$55,000	$760	1.40%
	TOTAL EXP. & OUTGOING TRANSFE	**$10,419,641**	**$8,628,873**	**($1,790,768)**	-17.19%
	ENDING FUND BALANCE	**($1,525,821)**	**$31,232**	$1,557,054	-102.05%

Attachment B

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

August 19, 2013

Thomas Parker, Superintendent
Phyllis Cook, President, Ecorse Board of Education
Ecorse Public Schools
27225 West Outer Drive
Ecorse, MI 48229-1749

Dear Superintendent Parker and Board President Cook:

On July 29, 2013, staff from the Ecorse Public Schools met with members of my staff to review the district's deficit situation. At that meeting, it was agreed that the district would submit a revised Deficit Elimination Plan (DEP) by August 6, 2013 (later extended to August 7, 2013) and that Michigan Department of Education (MDE) staff would review that DEP as quickly as possible. We received the revised DEP by the extended due date and have completed our review. The revised DEP is approved with contingencies; formal approval is in a separate letter to you dated August 19, 2013.

I remain concerned about the financial situation of the district. The district has been in deficit since June 30, 2004. As reiterated in the July 29, 2013 meeting, the five (5) year plan previously approved by MDE required the district to eliminate the deficit by June 30, 2013. The revised Plan, submitted by the August 7, 2013 deadline, does not adhere to the previous timeframe. Rather, it delays the deficit elimination until June 30, 2014, a sixth year.

Consequently, I am exercising my authority under Section 4(1)(a) of Public Act 436 of 2012 (PA 436, the Local Fiscal Stability and Choice Act) to initiate a Preliminary Review of the district's financial operations to determine the level of financial stress in the district. Section 4(2) of PA 436 requires that I provide specific written notification of the Preliminary Review prior to the review taking place; this letter meets that requirement.

Specifically, I am initiating this action based on the following criteria from Section 4(1): "(j) the local government has violated a requirement of Sections 17 to 20 of the Uniform Budgeting and Accounting Act, 1968 PA 2, MCL 141.437 to 141.440" and "(n) the local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan."

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www.michigan.gov/mde • (517) 373-3324

To be clear, this is a Preliminary Review at this point. It does not automatically mean that the end result would be for the Governor to declare a financial emergency in the district. The law provides for certain additional steps before that could occur. I must provide a Final Report of the Preliminary Review to the Local Emergency Financial Assistance Loan Board. If a finding of probable financial stress is made by that Board, the Governor shall appoint a Review Team for the district.

The Review Team will provide a report to the Governor, generally within 60 days of commencing its review. Should both the Review Team and the Governor determine that a financial emergency exists in the Ecorse Public Schools, the local board of education would be required to choose one of the following four (4) options to address the financial emergency:

1) Consent Agreement
2) Emergency Manager
3) Neutral Evaluation Process
4) Chapter 9 Bankruptcy

You will be contacted by Carol Wolenberg, Deputy Superintendent, and Dan Hanrahan, Director of State Aid and School Finance, on Monday, August 26, 2013 to discuss the PA 436 process. The Preliminary Review will officially begin on Tuesday, September 3, 2013. I would strongly recommend that you meet with your team prior to this contact to determine if any circumstances, such as additional expenditure adjustments, may have changed that would be helpful as we work with you during the Preliminary Review. If you have questions, please contact Ms. Wolenberg at 517-241-0062 (wolenbergc@michigan.gov) or Mr. Hanrahan at 517- 335-0521 (hanrahand@michigan.gov).

Sincerely,

Mike Flanagan
State Superintendent

cc: Andy Dillon, State Treasurer
Christopher A. Wigent, Superintendent, Wayne RESA
Carol Wolenberg, Deputy Superintendent, Michigan Department of Education
Dan Hanrahan, Director, State Aid and School Finance, Michigan Department of Education

Ecorse Public Schools

27225 W. Outer Drive
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THOMAS E PARKER
SUPERINTENDENT

Ecorse Public Schools

Interim Report Response

September 27, 2013

1) Ecorse Public Schools has been in deficit since it ended the 2003-2004 fiscal year with a $135,000 deficit. The District projects that the deficit balance for the year ended June 30, 2013 will be $1.5 million. The District projected that it will emerge from deficit in the 2013-14 fiscal year.

Ecorse Public Schools currently operates with a deficit of $1.5 million. The district has worked to aggressively reduce expenditures and increase revenue with the goal of eliminating the deficit at the end of 2013-1014. The plan that was submitted and approved by the MDE achieved this goal with an enrollment projection of 1080 students.
The plan as submitted has reduced costs to a level that will have the district with an annual operating surplus of $706, 931.
Currently, our enrollment projection is 915 students. Based on this reduction in enrollment, the district will be working immediately to reduce costs accordingly.

A review of district finances over the past three years has resulted in the identification of two categories of financial concern. First, there is a significant structural deficit that must be eliminated through the implementation of an aggressive deficit elimination plan and long-term structural changes to the district's academic and organizational systems. Additionally, there are significant one-time costs resulting from mismanagement of Title one funds that explicate 75% of the district's current debt.

Ecorse Public Schools ended the 2010 fiscal year with a deficit of only $27,884.

Based in large part on mismanagement of Title I funds, that resulted in a $684,028 repayment, the district ended the 2011 fiscal year with a deficit of $507, 121.

Without the mismanagement of the Title I funds, the district would have ended the 2011 fiscal year with a $176,907 surplus.

The Ecorse Board of Education has hired a new Superintendent and Business Manager. The new leadership team has been charged with and supported in implementing a plan that immediately addresses the 2013/2014 deficit. The focus also includes the responsibility for rectifying the problems that led to the structural deficit; precluding the district from returning to its prior financial state as this deficit is eliminated.

Ecorse Public schools submitted a DEP that eliminated the deficit as of the end of the 2013-2014 school year.

1. All district employees were subject to wage decreases for the 13-14 school year.
    a. Organization and Maintenance Unit (Custodian/Secretary) = 30% plus 10 furlough days, elimination of dental and optical
    b. All other district employees = 11%
    c. Total costs savings
        i. **506, 201 General Fund**
        ii. **94,660 Grant Funds that can be reallocated from Salary**
        iii. **600,861 total savings from concessions**

    d. Both major bargaining units' contracts expire 13/14 and costs will be renegotiated.
        i. The district will work to ensure that the cost savings accrued are maintained appropriately through future negotiations.

The district submitted an aggressive Deficit Elimination plan with concessions and wage decreases for all employees. This plus the addition of a contract school accounted for 75% of the deficit elimination by the end of the 13/14 school year.

Category	**Savings**
Staff Concessions	506,201
Reduction of Staff	454,473
Reduced costs due to ATS	56,223
Increased revenue ATS	100,000 (50 students after expenses)
Total	$1,116,897 = 75% of Deficit

The district's focus is on eliminating structural deficit and debt for the current school year, but also on becoming a more efficient organization able to maintain those cost savings in future years. We must continue to focus on lowering costs, as well as increasing enrollment (revenue).

2. The leadership team has begun and is currently working towards efficiency audits in each department.
    a. Central Office and School based positions have been combined to provide a more efficient and cost effective management system.
        i. One Central Office clerical position combined with Business Manager Role (In DEP)
        ii. One school based clerical position eliminated (In DEP)
        iii. Two instructional positions eliminated as a result of auditing schedules (Not originally in DEP)
    b. The district is currently assessing physical plant operations to determine maximum efficiency. TBD
3. Quarterly budget amendments.
    a. Previously, the district has not engaged a quarterly budget review process
    b. The new leadership will review the budget with the board quarterly and amend as necessary based on revenues and expenses
4. New School opening will increase revenue and reduce costs
    a. Contract school with ATS will increase slightly the student enrollment for fall count, and substantially for spring count. **(50 students projected enrollment (100,000 in revenue applied to deficit after expenses)**
    b. District expenses for utilities, maintenance will be reduced as ATS leases space and pays a portion of utilities. **56,233**
5. GSRP Program
    a. The district's 2012/2013 GSRP program consisted of 16 half day and 8 full day students resulting in $116,000. Of those 24 students remained enrolled in the district.
    b. Currently, the district's program has been expanded 64 full day GSRP students resulting in 454,400 for 2013-2014. ***(increased grant revenue of 338,400)***
    c. In 2012/2013 the district employed a teacher through general fund to teach GSRP students. The program now fully funds that and additional staff members **(109,484 savings to district)**
    d. A retention rate of even 75% of the GSRP students enrolling in Kindergarten next school year will create 48 additional fte students, increasing the budget by 355,200 (minus cost of staff).
    e. Growing and building consistency in the GSRP program has created a new feeder system for the district.

2) Ecorse Public Schools' projected June 30, 2013 deficit balance expressed as a percentage of the general fund revenues is projected to be a negative 14%. The percentage nearly meets the Department's parameter of a negative 15% to indicate concern.

The district recognizes the close proximity of the 15% debt limit designation, and has responded by implementing additional steps to eliminate the deficit by the end of 13/14.

With the steps already taken to transform the organization and efficiency audits underway, our deficit percentage will be significantly less than 15%

3) Ecorse Public Schools' audited financial reports for the years ending June 30, 2011 and June 30, 2012 did not include any material internal control weaknesses.

The Board of Education and prior district leadership have worked to implement systems addressing internal control and have been successful in recent years. The new leadership has implemented additional measures to ensure a check and balance system with all fiscal processes. All areas of fiscal management remain points of focus for growth. We will continue to improve our internal capacity.

4) Ecorse Public Schools has shown unsatisfactory progress in eliminating the deficit. The deficit increased from $135,000 on June 30, 2004 to an unaudited $1.5 million on June 30, 2013. Additionally, the District requires an additional year beyond the DEP that had been previously approved by the Department to eliminate the deficit.

The district's progress towards eliminating the deficit has been hampered by some substantial circumstances over the past 5 fiscal years. Below is a categorization of the district's significant expenditures resulting in the deficit's growth from $27,000 in 2010 to $1.5 million in 2013. These calculations are supported by official independent audits.

The largest issue that resulted in the current deficit was mismanagement of the Title One program. At the end of fiscal year 10/11 the district was on the verge of emerging from deficit. Mismanagement of Title One funds led to two years of disallowed funds resulting in the district repaying **$851,336**. This represents **56%** of the current deficit.
Corrective action is in place to address the Title One issue. The Board and the new leadership of the district truly recognize that this type of mismanagement is avoidable and if repeated, can lead to a disastrous outcome for the district. The former director is no longer employed by the district.

- FY 6/30/08 – 6/30/09 - Deficit increase by $101,825, resulting in a $239,580 ending deficit @ 6/30/09

- FY 6/30/09 – 6/30/10 - **Deficit decrease of $211,696, resulting in a $27,884 ending deficit @ 6/30/10**

- FY 6/30/10 – 6/30/11 – Deficit increase of $479,237, resulting in a $507,121 ending deficit @ 6/30/11
    - Title I had disallowed funds and a partially un-approved budget, resulting in a payback and overspending of funds in the amount of $684,028. ***Without this Title I mismanagement, the district would have had a $176,907 surplus.***

- FY 6/30/11 - 6/30/12 - Deficit increase of $1,024,904, resulting in a $1,532,025 ending deficit @ 6/30/12
    - Title I had disallowed funds in the amount of $167,338 that had to be paid back to the State of MI
    - Electricity was overspent/underbudgeted by $99,808
    - The district paid the sick bank to employees that had over a certain amount banked (an attempt to reduce future expenditures). This resulted in an additional $91,012 in unbudgeted payroll expenses.
    - The district settled a lawsuit with a terminated employee. The settlement cost was $40,000.
    - Employees with significant sick pay balances retired, resulting in unbudgeted and unexpected severance amount of $101,484.

- FY 6/30/12 – 6/30/13 – Unaudited projection of $1.5 million similar to the 11/12 deficit number @ 6/30/13.
    - The former Superintendent retired after 42 years of service to the district. Full compensation for her retirement package cost the district $230,723.29. This amount was budgeted for 12/13. The new Superintendent's contract resulted in an overall cost savings to the district.

75% of the current budget deficit can be defined via non-reoccurring expenditures from 2011-Present. The Title One concern, principal judgment, and Superintendent severance total $1.1 million. These are costs that define a majority of the current deficit, however will not be future expenditures for the district

Without these concerns reappearing, the district will operate with a surplus in the next fiscal year.

Non reoccurring expenditures

Sup. Severance	230,723
Principal Judgment	40,000
Title One Adjustments	851,336
Total	1,122,059 = 75% of current deficit

Avoidable financial management with Title One and the need for swift attention to structural deficit causes (salaries, staffing adjustments, etc.) plagued the district

during this period and hampered its ability to reduce the deficit in a satisfactory manner.
Without these issues, and implementing the current cost-cutting measures, the district could currently operate with a $706, 931 surplus.

Current Deficit	$1,532,025.00
Non reoccurring expenditures	$1,122,059.00
Deficit without NRE	$409,966.00
Add	
13/14 Concessions	$506,201.00
13/14 Reduced Staff	$454,473.00
ATS Cost reduction	$56,223.00
ATS Student Revenue	$100,000.00
Potential Operating Surplus without NRE	$706,931.00

The district has hired a new Superintendent and a new Director of Business and State and Federal Programs. The focus of the new leadership team is addressing these concerns that have plagued the district. New accountability measures are in place for all staff members. Accuracy of projecting costs becomes a vital expectation of the new team.

The district has renewed its partnership with the local ISD seeking leadership and support in refining its processes.
Much of the aforementioned expenditures were avoidable expenses that the district accrued during the past 5 years. The new leadership will work to ensure that these issues are not repeated. Progress towards eliminating the deficit will improve as a result.

5) The District was delinquent in retirement contributions to the Michigan Public School Employees Retirement System in the amount of $91,765.75 for the period ending August 31, 2013 as of September 18, 2013.

The district has made contact with ORS to ascertain the issue with the delinquent contributions.

While the issue has resulted in a $91,765.75 bill to the district, it indicates more of a concern with internal accounting and reporting than with financial solvency.
The new leadership of the district has been working with ORS to improve the reporting procedures and the payment process between the district and ORS. The district has underreported its retirement contribution for at least 13 months. The district has remitted payment monthly; however, the amount paid has been less than actually owed.

This concern has been addressed.

1. As of September 26, the district will utilized the Automated Clearing House (ACH) to remit payment to ORS.
2. The Business Manager is currently working with the ISD to reconcile the correct reporting amount.
3. Payment will be remitted to the ORS immediately.