STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

April 19, 2012

David L. Sipka, Interim Superintendent
Muskegon Heights School District
2603 Leahy Street
Muskegon, Michigan 49444

Muskegon Heights Board of Education
2603 Leahy Street
Muskegon, Michigan 49444

Dear Interim Superintendent Sipka and Board of Education Members:

On April 2, 2012, the Muskegon Heights School District Financial Review Team, which was appointed pursuant to Public Act 4 of 2011, the Local Government and School District Fiscal Accountability Act, submitted its report to Governor Snyder. He agreed with the conclusion of that report and determined that a financial emergency existed within the Muskegon Heights School District and that no satisfactory plan existed to resolve the emergency. By letter dated April 10, 2012, Governor Snyder provided you with written notice of his determination.

The deadline by which School District officials could request a hearing, April 17, 2012, expired without a hearing being requested. In fact, by electronic correspondence dated April 12, 2012, Governor Snyder was informed that School District officials had decided not to appeal his determination. Therefore, for the reasons set forth below, I confirm Governor Snyder's determination that a local government financial emergency exists in the Muskegon Heights School District and that no satisfactory plan exists to resolve that financial emergency.

Findings of Fact

On January 31, 2012, Governor Snyder appointed an eight-member Financial Review Team. The Review Team found, or confirmed, the existence of the following conditions based upon information provided by School District officials, or the School District's audit firm, or other relevant sources:

- According to the School District's 2011 fiscal year financial audit, the School District's cumulative general fund deficit increased by 102 percent, from $4,195,864 (as restated) as of June 30, 2010 to $8,472,543 as of June 30, 2011. The one-year increase in the School District's cumulative general fund deficit resulted from general fund expenditures and transfers out exceeding general fund revenues by $4,276,679.

- Since at least the 2006 fiscal year, the School District has not had a positive year-end fund balance in its general fund. Based upon information on file with the Michigan Department of Education, the negative year-end general fund balance during these years has ranged from $900,378 for the 2006 fiscal year to a projected $9,442,788 for the current fiscal year which ends on June 30, 2012.

- Financial audit reports for the School District for its last three fiscal years reflected the following variances between general fund revenues and expenditures, as initially budgeted and as amended, versus general fund revenues and expenditures actually realized:

	2008-09	%	2009-10	%	2010-11	%
Revenues						
Original	$22,481,370		$21,964,880		$19,743,100	
Final	$22,481,370		$21,048,383		$20,007,464	
Actual	$22,770,560		$20,437,910		$17,784,569	
Variance	$289,190	1.29	($610,473)	(2.9)	($2,222,895)	(11.1)
Expenditures						
Original	$22,481,370		$21,949,880		$23,230,460	
Final	$22,481,370		$23,781,642		$21,950,437	
Actual	$23,608,408		$23,032,858		$22,061,248	
Variance	($1,127,038)	(5.01)	$748,784	3.15	($110,811)	(0.50)

- The School District's pupil enrollment decreased by 34.3 percent, from 2,142 pupils for the 2006 fiscal year to 1,408 pupils for the 2012 fiscal year. The decline in the number of pupils in the School District had a corresponding impact upon the general fund revenues available as school funding continues to be based upon the number of pupils.

Fiscal Year	Pupil Count	General Fund Revenue
2006	2,142	$24,224,178
2007	2,046	$22,032,907
2008	1,909	$21,701,821
2009	1,820	$22,033,838
2010	1,599	$19,894,627
2011	1,537	$17,784,577
2012	1,408	$17,600,387

- Pursuant to documents School District officials signed on August 1, 2011, related to a $7.9 million State aid note for the School District, the Department of Treasury was required to intercept a portion of the School District's State aid payments beginning in February 2012 in order to help ensure the timely repayment by the School District of that State aid note. The intercepts are a direct result of the School District's loss of students and associated State aid. These intercepts will continue through July of 2012, in the amount of $113,678.46 (approximately 12 percent) from each State aid payment. These partial intercepts will be in addition to a 100 percent intercept of the School District's August 2012 State aid payment, which also is required pursuant to the August 1, 2011 documents. Even after the intercepts, the School District still will owe approximately $6.3 million on its State aid note which is due August 20, 2012.

Confirmation

Given the foregoing information, I find more than ample factual support to confirm, pursuant to Section 15(2) of the Act, Governor Snyder's determination that a local government financial emergency exists in the Muskegon Heights School District.

Therefore, pursuant to Section 15(2) of the Act, I confirm Governor Snyder's determination that a local government financial emergency exists in the Muskegon Heights School District and that no satisfactory plan exists to resolve that financial emergency. Furthermore, pursuant to Section 15(4) of the Act, I declare the Muskegon Heights School District to be in receivership and appoint Donald B. Weatherspoon as Emergency Manager "to act for and in the place and stead of the governing body and the office of chief administrative officer" of the Muskegon Heights School District.

Sincerely,

Brian Calley
Governor

cc: Andy Dillon, State Treasurer
Mike Flanagan, Superintendent of Public Instruction