



STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

August 6, 2013

Kelley Williams, Interim Superintendent
Pontiac School District
47200 Woodward Avenue,
Pontiac, Michigan 48342

Board of Education
Pontiac School District
47200 Woodward Avenue,
Pontiac, Michigan 48342

Dear Interim Superintendent Williams and Pontiac Board of Education:

Public Act 436 of 2012, the Local Financial Stability and Choice Act, requires that I, as Governor, reach one of the following two conclusions within 10 days of receiving a financial Review Team report:

- (a) A financial emergency does not exist within the local government.
- (b) A financial emergency exists within the local government.

I have reviewed in detail the report submitted to me on August 2, 2013, by the Pontiac School District Financial Review Team. I agree with the conclusion of the report, which was that a financial emergency exists within the Pontiac School District.

Therefore, I wish to inform you that, pursuant to Section 6(1)(b) of the Local Financial Stability and Choice Act, I have determined that a local government financial emergency exists within the Pontiac School District.

Findings of Fact

Section 6(2) of the Act requires that, upon a determination by me of a financial emergency, I provide you with findings of fact utilized as the basis upon which this determination was made, and a concise and explicit statement of the underlying facts supporting the factual findings.

Preliminary Review

On April 23, 2013, the Michigan Department of Education commenced a preliminary review of the finances of the Pontiac School District to determine whether or not probable financial stress existed. Section 4(1) of the Act permits a preliminary review to be conducted if one, or more, of the conditions enumerated therein occurs. The preliminary review of the Pontiac School District resulted from the conditions enumerated in subdivisions (k), (n), (o), and (s) of Section 4(1)

having occurred within the School District.¹¹ The preliminary review found, or confirmed, the following:

- The School District had shown unsatisfactory progress in eliminating its cumulative general fund deficit. That deficit had increased from \$8.5 million on June 30, 2009, to \$37.7 million on June 30, 2012. School District officials projected that the School District would remain in a deficit condition during the 2013 and 2014 fiscal years.
- The fund balance of the School District, expressed as a percentage of general fund revenues was a negative 52 percent on June 30, 2012 (the most current audited data). This percentage far exceeded the Department of Education's parameter of a negative 15 percent to indicate concern.
- The financial audit report of the School District for the 2012 fiscal year included 10 findings of material weaknesses, significant deficiencies, or noncompliance. The financial audit report of the School District for the 2011 fiscal year had included 14 findings of material weaknesses, significant deficiencies, or noncompliance.
- The School District was delinquent in remitting retirement contributions to the Michigan Public School Employees Retirement System in the amount of \$2.7 million for the period ending March 31, 2012.

In addition to the foregoing preliminary review findings for the School District, the Michigan Department of Education gave consideration to the following information:

- The School District did not file its most recent financial audit report with the Department of Education by the statutory due date of November 15, 2012. As a result, the Department was statutorily required to withhold State school aid payments beginning in December 2012.
- The Department rescinded its approval of the School District's deficit elimination plan due to the failure of School District officials to implement agreed upon strategies to reduce the fiscal year 2012 deficit to the level projected in that plan. The Department was then statutorily required to withhold State school aid payments beginning in March 2013.

¹ Subdivision (k) provides that "[t]he local government fails to timely file an annual financial report or audit that conforms with the minimum procedures and standards of the state financial authority and is required for local governments under the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a, or 1919 PA 71, MCL 21.41 to 21.55." Subdivision (n) provides that "[t]he local government is in breach of its obligations under a deficit elimination plan or an agreement entered into pursuant to a deficit elimination plan." Subdivision (o) provides that "[a] court has ordered an additional tax levy without the prior approval of the governing body of the local government." Subdivision (s) concerns "[t]he existence of other facts or circumstances that, in the state treasurer's sole discretion for a municipal government, are indicative of probable financial stress or that, in the state treasurer's or superintendent of public instruction's sole discretion for a school district, are indicative of probable financial stress."

- The School District submitted to the Department of Education on May 6, 2013, a revised deficit elimination plan which the Department approved, but with significant contingencies.
- Cash flow continued to be distressed to a level that necessitated the School District receive current year advances from Oakland Schools (i.e., Oakland County's intermediate school district) in order meet payroll, and other financial, obligations.
- The School District had a longstanding history of turnover in administrative leadership, which hampered, among other things, a consistent, stable, and ongoing implementation of deficit elimination plans.
- The School District had a \$7.8 million judgment entered against it on January 18, 2013, due to its failure to remit payments to the Michigan Education Special Services Association. The judgment was placed on the School District tax rolls as a judgment levy beginning in July of 2013.

On May 20, 2013, the Superintendent of Public Instruction submitted the foregoing preliminary review to the Local Emergency Financial Assistance Loan Board. On June 6, 2013, the Board determined that probable financial stress existed for the Pontiac School District.

Review Team Findings

On July 3, 2013, I appointed a six-member Financial Review Team. The Review Team convened on July 10th, 15th, 17th, and 24th, 2013.

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 2012 fiscal year financial audit report, the School District's cumulative general fund deficit increased by 53.6 percent, from \$24.5 million on June 30, 2011 to \$37.7 million on June 30, 2012. The one-year increase in the School District's cumulative general fund deficit resulted from general fund expenditures and net transfers out exceeding general fund revenues by \$13.1 million.
- On July 11, 2013, the Michigan Public School Employees Retirement System notified the Superintendent of Public Instruction and State Treasurer to withhold \$4.9 million in State school aid payments from the School District due to its failure to remit employer and employee contributions for the period ending June 30, 2013. Public Act 300 of 1980, the Public School Employees Retirement Act 1979, requires the Superintendent of Public Instruction and State Treasurer to withhold State school aid upon written notice from the Retirement System.
- School District officials violated Section 17 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act, by permitting expenditures in excess of budgeted appropriations.
- Financial audit reports for the School District for its last three fiscal years reflected significant variances between general fund revenues and expenditures, as initially budgeted and as

amended, versus general fund revenues and expenditures actually realized. In all three of the years in question, general fund revenues were overestimated, substantially so in fiscal years 2010 and 2011, by 11.1 percent and 12.7 percent, respectively. It was noteworthy that in none of the three years did general fund revenues exceed general fund expenditures.

- The Review Team was advised that School District officials viewed as paramount satisfying biweekly payroll obligations. To this end, those officials appear to have adopted a strategy of pooling all cash resources so that those resources could be used to satisfy payroll obligations. However, this strategy was pursued without regard for the fact that a number of the resources that had been pooled together were prohibited by legal or accounting requirements from being utilized for general operations such as payroll.
- On May 1, 2013, School District officials defaulted on a \$1.4 million debt service payment related to energy bonds which the School District issued in 2006. Due to the School District's default, the debt service payment in question was made by a third party which had insured the bonds. As a result, the School District now is liable to the bond insurer.
- As of June 30, 2013, the School District had accumulated approximately \$33.0 million in unpaid bills to various vendors. This amount included \$6.9 million owed to the Oakland County Treasurer's Office in connection with various property tax delinquencies; \$4.9 million owed to the State's Office of Retirement Services in connection with the Michigan Public School Employees Retirement System; \$4.1 million owed the State School Loan Revolving Fund; \$1.4 million owed to a bond insurer related to the default on energy bonds noted above; \$1.4 million owed to Oakland Schools; \$1.1 million owed for utilities; and \$3.73 million owed to Michigan Education Special Services Association for health care insurance, which is in addition to the \$7.8 million judgment levy noted earlier. Concerning the last unpaid bill, the Michigan Education Special Services Association notified School District officials on June 25, 2013, of its intent to terminate health insurance coverage for School District employees as of July 31, 2013.

Conclusion

Based upon the foregoing information, the Review Team confirmed the findings of the preliminary review, the determination of the Local Emergency Financial Assistance Loan Board, and concluded that a financial emergency existed within the School District. After thoroughly reviewing the report of the Review Team, I concur with their conclusion. Therefore, pursuant to Section 6(1)(b) of the Act, I have determined that a local government financial emergency exists within the Pontiac School District.

Notice of Hearing

Pursuant to Section 6(2) of the Local Financial Stability and Choice Act, the chief administrative officer or governing body may within 7 days request a hearing upon the determination of a financial emergency. The deadline for requesting a hearing is 5:00 P.M., Tuesday August 13, 2013. In the event that a hearing is requested, it will be convened at 10:00 A.M. on Wednesday August 14, 2013 in Lansing, before the State Financial Authority, or his designee.

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It should be noted that the hearing would not be an original fact finding proceeding. Its purpose would be to afford School District officials an opportunity to indicate whether the findings of the Review Team report were supported by competent, material, and substantial evidence on the whole record. Therefore, any information which Pontiac School District officials may wish to present that was not available to the Review Team, or that concerns actions taken by School District officials since the Review Team filed its report, or that concerns actions Pontiac School District officials anticipate taking in the future to address the financial emergency in the Pontiac School District, will be considered beyond the scope of the hearing.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rick Snyder", is written over a horizontal line.

Rick Snyder
Governor