



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

February 26, 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 second 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. This second quarterly report can appropriately serve as the required annual report due March 1 given the proximity of this presentation to the annual deadline.

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

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concerning the progress made by districts and intermediate districts in reducing those deficits. On a quarterly basis, the superintendent of public instruction shall publicly present those reports to the appropriations subcommittees of the legislature responsible for K-12 education appropriations."

The following narrative provides relevant information regarding process; 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 plans (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 first report to you on December 6, 2012, MDE staff have met/will meet in Lansing with the following critically deficit districts:

- Taylor School District – January 18, 2013
- Bedford Public Schools – January 22, 2013
- Buena Vista Schools – February 5, 2013
- Pontiac School District – February 25, 2013 and March 6, 2013
- Flint School District – February 26, 2013
- White Cloud Public Schools – March 7, 2013

Public school academies (charter schools) are treated the same as the 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 of 1979, 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 information. Since my December report to you, because the Pontiac School District has not complied with the law in submitting its audit by the November 15 deadline and the Financial Information Database (FID) information due to CEPI by the same deadline is not complete, I have withheld Pontiac's state aid beginning with the December 20, 2012 payment. When the required information has been received, I will release all payments.

"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.

EARLY WARNING INDICATORS

In my December 6, 2012 report to this group, I discussed our intent to use existing data and systems already in place to assure that districts and, because Michigan is a locally controlled state, their respective boards of education are aware of budget and potential deficit issues. In order to avoid duplication of effort, we have continued to work diligently with systems that are already in place and in use by districts or that are under development by the Center for Educational Performance and Information (CEPI) which is housed in our State Budget Office. In an effort to keep districts informed of our progress and what is available to them, I've attached a copy of our most recent

communication that provided the most current information to key educational organizations, districts and our colleagues in CEPI. (Attachment C)

DEFICIT DISTRICT DATA

Attachments A and B provide the financial analysis for FY2012-13.

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 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.

Attachment B lists the 49 Michigan public school 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, eleven (11) are projecting to successfully eliminate their deficit by the end of FY2013. These districts are identified in Attachment B, Category 1. Twenty-five districts are projecting to reduce their deficit in FY2013 (Attachment B, Category 2). Thirteen districts are projecting to increase their deficit in FY2013 (Attachment B, Category 3). At this point, MDE is aware of only three districts (Pinckney, South Lake and Bangor) 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.

NOTE: The 2012-13 data in this report are projections from the districts and are subject to change as the fiscal year progresses.

ISD/School Name	June 2011 Fund Balance	June 2012 Fund Balance	Projected 2013 GF Revenues	Projected 6/30/2013 Fund Balance / (Deficit) Per Monthly Report	% 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	\$6,550	(\$41,116)	\$3,863,775	\$5,904	0.15%
Barry ISD					
Hastings Area School System	\$340,780	(\$622,606)	\$22,494,007	\$490,092	2.18%
Calhoun					
Athens Area Schools	\$264,046	(\$21,185)	\$4,984,023	\$89,710	1.80%
Dickinson-Iron ISD					
North Dickinson County Schools	\$18,014	(\$126,171)	\$2,574,510	\$6,993	0.27%
Genesee ISD					
Westwood Heights Schools	(\$124,340)	(\$155,732)	\$8,824,871	\$457,517	5.18%
Iosco RESA					
Hale Area Schools	(\$650,461)	(\$195,203)	\$4,885,449	\$170,848	3.50%
Marquette Alger RESA					
North Star Academy	(\$91,710)	(\$28,222)	\$2,266,637	\$9,487	0.42%
Muskegon					
Muskegon Heights School District	(\$8,473,001)	(\$11,781,943) *	\$13,876,837	\$368,200	2.65%
Cheboygen-Otsego-Presque Isle					
Mackinaw City Public Schools	\$218,374	(\$23,914)	\$2,263,584	\$6,086	0.27%
Vanderbilt Area School District	(\$95,872)	(\$155,449)	\$1,468,580	\$20,047	1.37%
Wayne					
Northpointe Academy	(\$266,456)	(\$20,840)	\$2,798,643	\$147,405	5.27%
CATEGORY 2					
Districts that began FY2013 in deficit and project to end the year with a reduced deficit.					
Berrien					
Benton Harbor Area Schools	(\$16,076,758)	(\$16,099,422)	\$29,635,199	(\$12,776,363)	-43.11%
Calhoun					
Bellevue Community Schools	(\$646,910)	(\$254,126)	\$5,529,275	(\$235,843)	-4.27%
Gratiot-Isabella RESD					
Ashley Community Schools	\$14,760	(\$164,856)	\$2,549,189	(\$85,736)	-3.36%
Hillsdale ISD					
North Adams-Jerome Public Schools	\$170,611	(\$114,796)	\$3,407,427	(\$61,602)	-1.81%
Copper Country					
Hancock Public Schools	(\$840,667)	(\$770,596)	\$6,489,356	(\$704,429)	-10.86%
Macomb					
East Detroit Public Schools	(\$7,860,591)	(\$7,545,877)	\$36,782,044	(\$6,003,332)	-16.32%
Clintondale Community Schools	(\$4,993,071)	(\$4,772,258)	\$30,316,316	(\$3,684,547)	-12.15%
Mt. Clemens Community Schools	(\$3,847,845)	(\$4,790,635)	\$19,110,822	(\$2,895,399)	-15.15%
New Haven Community Schools	(\$460,592)	(\$323,332)	\$11,972,683	(\$246,070)	-2.06%
Mason-Lake ISD					
Mason County Eastern Schools	(\$231,345)	(\$251,542)	\$4,063,819	(\$108,443)	-2.67%
Newaygo County					
White Cloud School District	(\$460,495)	(\$693,720)	\$9,622,236	(\$676,791)	-7.03%
Oakland					
Pontiac School District	(\$24,534,392)	(\$30,500,000) *	TBD	TBD	
Avondale School District	(\$989,233)	(\$1,338,397)	\$35,965,094	(\$1,113,517)	-3.10%
Oak Park School District	(\$7,902,891)	(\$5,557,347)	\$49,087,245	(\$3,559,830)	-7.25%

ISD/School Name	June 2011 Fund Balance	June 2012 Fund Balance	Projected 2013 GF Revenues	Projected 6/30/2013 Fund Balance / (Deficit) Per Monthly Report	% Deficit is of Revenues
Saginaw ISD					
Saginaw City School District	(\$1,417,986)	(\$5,100,750)	\$82,005,816	(\$4,982,125)	-6.08%
Buena Vista Schools	(\$51,593)	(\$1,028,388)	\$11,110,238	(\$1,005,121)	-9.05%
Bridgeport Spaulding Community School District	(\$954,339)	(\$2,561,221)	\$13,294,009	(\$1,984,248)	-14.93%
Washtenaw					
Willow Run Community Schools	(\$1,702,257)	(\$2,916,684)	\$18,749,680	(\$2,877,104)	-15.34%
Wayne					
Detroit Public Schools	(\$283,929,316)	(\$76,345,661)	\$720,283,139	(\$72,283,849)	-10.04%
Hamtramck Public Schools	(\$4,961,129)	(\$3,776,824)	\$30,737,670	(\$2,191,246)	-7.13%
Highland Park City Schools	(\$11,251,484)	(\$12,170,066)	\$9,950,343	(\$5,333,504)	-53.60%
Redford Union Schools	(\$1,757,017)	(\$4,114,455)	\$27,015,143	(\$3,296,437)	-12.20%
River Rouge School District	(\$2,987,237)	(\$3,427,203)	\$16,329,006	(\$1,513,259)	-9.27%
Westwood Community School District	(\$6,172,286)	(\$6,240,031)	\$24,905,172	(\$6,142,198)	-24.66%
Ecorse Public School District	(\$507,075)	(\$1,536,593)	\$11,309,575	(\$778,381)	-6.88%
CATEGORY 3					
Districts that began FY2013 in deficit and project to end the year with a greater deficit.					
Genesee ISD					
Flint Community Schools	(\$3,694,744)	(\$4,044,840)	TBD	TBD	
Livingston ESA					
Brighton Area Schools	(\$7,890,905)	(\$7,388,781)	\$59,826,835	(\$8,572,364)	-14.33%
Macomb					
Van Dyke Public Schools	\$85,428	(\$741,835)	\$30,765,097	(\$1,722,347)	-5.60%
Menominee ISD					
Menominee Area Public Schools	\$718,741	(\$129,287)	\$12,549,103	(\$388,951)	-3.10%
Monroe County ISD					
Bedford Public Schools	\$998,698	(\$518,799)	\$38,373,120	(\$1,209,104)	-3.15%
Oakland					
School District of the City of Hazel Park	(\$2,343,202)	(\$1,527,137)	\$41,102,437	(\$3,262,150)	-7.94%
Shiawassee RESD					
Perry Public Schools	\$196,723	(\$1,083,873)	\$11,376,049	(\$1,491,972)	-13.12%
Washtenaw					
Ypsilanti Public Schools	(\$4,901,940)	(\$9,014,364)	\$38,083,288	(\$9,192,308)	-24.14%
Wayne					
Dearborn Heights School District #7	\$271,561	(\$991,174)	\$23,401,949	(\$1,390,852)	-5.94%
School District of the City of Inkster	(\$10,507,942)	(\$12,787,350)	\$26,083,379	(\$15,851,791)	-60.77%
Taylor School District	\$3,648,718	(\$5,941,851)	\$62,924,127	(\$9,335,086)	-14.84%
Southgate Community Schools	(\$1,376,678)	(\$3,249,656)	\$43,619,036	(\$4,265,717)	-9.78%
HEART Academy	\$22,920	(\$93,780)	\$1,681,444	(\$224,471)	-13.35%
CATEGORY 4					
Districts that began FY2013 with a positive fund balance but project to end the year in deficit.					
Livingston ESA					
Pinckney Community Schools	\$2,767,666	\$865,569	\$31,565,266	(\$1,905,731)	-6.04%
Macomb					
South Lake Schools	\$1,726,982	\$1,200,175	\$19,941,540	(\$1,659,151)	-8.32%
Van Buren ISD					
Bangor Public Schools	\$618,355	\$154,974	\$10,752,087	(\$812,119)	-7.55%
* Estimated balance. As of 2/7/2013 district has not submitted FID data as required. State Aid payments have been withheld.					
SUMMARY:					
No. of Districts	Cat.	Description			
11	1	Districts that are projecting to emerge from deficit by June 30, 2013			
25	2	Districts that began FY2013 in deficit and project to end the year with a reduced deficit.			
13	3	Districts that began FY2013 in deficit and project to end the year with a greater deficit.			
3	4	Districts that began FY2013 with a positive fund balance but project to end the year in deficit.			



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

February 14, 2013

MEMORANDUM

TO: Local and Intermediate School District Superintendents and
Public School Academy Directors

FROM: Carol Wolenberg, Deputy Superintendent *Carol*

SUBJECT: Early Warning Indicators of Financial Stress

The Michigan Department of Education (MDE) is charged with the responsibility of monitoring Michigan public schools to ensure compliance with various state and federal laws related to prudent financial management and reporting on the use of public funds. In addition to this specific charge, Mike Flanagan, our State Superintendent, along with State Board of Education encouragement, prompted this memorandum to alert districts and local boards of education to early warning indicators of financial stress that could prove beneficial in making difficult financial decisions.

MCL 388.1702 relates to districts that experience a deficit fund balance. The majority of district administrators and local boards of education have been able to manage their district's financial and academic resources and still maintain a positive fund balance. They do this by early detection and correction of some common early warning indicators of financial stress such as:

- Declining Enrollment
- Increasing Staff Costs
- Incurring an annual operating deficit
- Declining Fund Balance
- Increase in Short Term borrowing to meet cash flow needs
- Repeat Audit Findings (especially if material)

However, we have seen a marked increase in the number of districts that have experienced a deficit fund balance. The magnitude of some of these deficits seems almost insurmountable.

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Early Warning Indicators of Financial Stress
February 14, 2013
Page 2

The purpose of this correspondence is to encourage district school boards and administrators to take a serious look at where their district measures on each of these indicators and to determine if the district is experiencing a negative trend on any of them. It is a district board and administration responsibility to make the difficult decisions necessary to ensure that the district remains financially viable.

MDE is working with the Center for Educational Performance and Information (CEPI) to provide common financial health indicators to be included in the [MiSchool Data portal](#). We anticipate that they will be available in the coming months.

In addition, we understand that many districts are currently using software vendors that offer tools utilizing state datasets (data reported by districts to the state) that may help in monitoring the fiscal health of a school district. The links are below.

- [Munetrix](#)
- [Masadda](#)

We appreciate the fact that the majority of districts and local boards continue to operate within their revenues.

If you have questions regarding this correspondence, please contact Glenda Rader at raderg@michigan.gov or by phone at (517)335-0524.

cc: Michigan Education Alliance
Mike Flanagan, State Superintendent
Tom Howell, Director, CEPI