



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

SHEILA A. ALLES
INTERIM STATE SUPERINTENDENT

MEMORANDUM

DATE: December 1, 2018

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Sheila A. Alles, Interim State Superintendent

SUBJECT: Quarterly Report to the Legislature on Deficit Districts

OVERVIEW

Pursuant to language in Section 1220(2)(a) of the of the Revised School Code (MCL 380.1220), the Michigan Department of Education is required to report quarterly to the Legislature on school districts incurring year-end deficits and the progress in reducing those deficits. In this first quarterly report for FY 2018-2019, an analysis of FY 2017-2018 audited financial data has been completed for school districts with a deficit. The analysis is conducted using data collected from audited financial statements and the Financial Information Database (FID). It should be noted that since 1976, the Department has provided the Legislature with an annual report on local school districts in financial deficit.

Note: This report was prepared with data as of November 21, 2018.

Section 1220(2)(a) of the Revised School Code (PA 451 of 1976, as amended) states:

"(2) Not later than March 1 of each year, the department shall prepare a report of deficits incurred or projected by school districts, intermediate school districts, and public school academies 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 school aid 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 school districts, intermediate school districts, and public school academies in reducing those deficits to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director. On a quarterly basis, the

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608 WEST ALLEGAN STREET • P.O. BOX 30008 • LANSING, MICHIGAN 48909
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superintendent of public instruction shall publicly present those reports to the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations."

The following narrative provides information regarding the deficit district process. The attached analysis provides specific information about existing deficit districts.

MICHIGAN DEPARTMENT OF EDUCATION PROCESS

Under Governor Snyder's Good Government initiative, the Department has included the following financial metric on its Scorecard related to DEPs: "Percent of DEPs reviewed within 30 days of receipt from districts." The Department continues to achieve 100% on this metric. Deficit district requirements and contact information may be found on the [Department's website](#).

Section 1220 of the Revised School Code requires school districts, intermediate school districts, and public school academies with a deficit fund balance to submit a DEP to the Department. We have a formal process in place to ensure that districts develop and implement DEPs to eliminate their deficits. This process may include requiring district representatives (e.g., administrators, local board of education members, and union representatives) to attend a meeting in Lansing to discuss requirements in the law, status of the district's financial situation, possible modifications to the district's DEP, and answer questions. The purpose of these meetings is to ensure the district's key representatives understand what their responsibilities are under current law. The Department stresses that because Michigan is a locally controlled state, district officials must make the difficult decisions that will eliminate the deficit. We also include Department of Treasury staff in these meetings to discuss how the State Aid Note Borrowing Program and the Emergency Loan Program affect a district's deficit status. The Department invites the Office of Retirement Services to these meetings, should there be an issue with MPERS payments. The Department of Licensing and Regulatory Affairs is also invited if the district has reimbursement issues related to Unemployment Insurance.

REQUIREMENTS IN LAW

DISTRICT REQUIREMENTS

Sec. 1220(1) of the Revised School Code [MCL 380.1220(1)] states:

"A school district, intermediate school district, or public school academy shall not adopt or operate under a deficit budget, and a school district, intermediate school district, or public school academy shall not incur an operating deficit in a fund during a school fiscal year. If a school district, intermediate school district, or public school academy has an existing deficit fund balance, incurs a deficit fund balance in the most recently completed school fiscal year, or adopts a current year budget that projects a deficit fund balance, all of the following apply:

(a) The school district, intermediate school district, or public school academy shall notify the superintendent of public instruction and the state treasurer immediately upon the occurrence of the circumstance. A school district shall provide a copy of the

notice under this subdivision to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall provide a copy of the notice under this subdivision to the authorizing body of the public school academy.

(b) Within 30 days after making notification under subdivision (a), the school district, intermediate school district, or public school academy shall submit to the superintendent of public instruction in the form and manner prescribed by the department an amended budget for the current school fiscal year and a deficit elimination plan approved by the board of the school district, intermediate school district, or public school academy, with a copy to the state treasurer. A school district shall transmit a copy of the amended budget and the deficit elimination plan to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall transmit a copy of the amended budget and the deficit elimination plan to its authorizing body.

(c) The department may withhold and release some or all of the money payable to the school district, intermediate school district, or public school academy as provided under section 102(1) of the state school aid act of 1979, MCL 388.1702.

(d) The superintendent of public instruction may require a deficit elimination plan to include an academic plan for the school district, intermediate school district, or public school academy.

(e) After the superintendent of public instruction approves a school district's, intermediate school district's, or public school academy's deficit elimination plan, the school district, intermediate school district, or public school academy shall post the deficit elimination plan on the school district's, intermediate school district's, or public school academy'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 may be imposed on deficit districts include withholding state school aid [MCL 388.1702(1)] and reporting a violation to the Attorney General who will determine if action is required [MCL 388.1761].

- MCL 388.1702(1) – *"If a district or intermediate district is required to submit a deficit elimination plan under section 1220 of the revised school code, MCL 380.1220, and the district or intermediate district fails to submit a deficit elimination plan or the deficit elimination plan is not approved, the department may withhold some or all of the money payable to the district or intermediate district under this article, in an amount the department determines necessary to incentivize the district or intermediate district to eliminate the deficit, until the district or intermediate district submits to the department for approval an amended budget for the current school fiscal year and a deficit elimination plan in the form and manner prescribed by the department or until the deficit elimination plan is approved by the department, as determined by the department."*
- MCL 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, or both."*

As Interim State Superintendent, I have not asked for the Attorney General's involvement regarding deficit districts.

EARLY WARNING LEGISLATION

Legislation to address districts that trigger indicators of potential financial stress was signed into law by Governor Snyder on July 7, 2015. It expands the role of the Department of Treasury, including oversight of districts experiencing rapidly deteriorating financial circumstances and districts that have been in deficit for more than five years. Of the 17 districts that were in deficit at June 30, 2018, 12 are under Treasury's oversight:

- Bay City Academy
- Beecher Community School District
- Benton Harbor Area Schools
- Detroit City School District (Old Co.)
- Detroit Public Safety Academy
- Gwinn Area Community Schools
- Hazel Park City School District
- Highland Park City Schools
- Mt. Clemens Community School District
- Pontiac City School District
- South Lake Schools
- Vanderbilt Area Schools

DEFICIT DISTRICT DATA

Attachments A and B provide the financial analysis for FY 2017-18.

Questions about this report should be directed to Phil Boone, Office of Financial Management, at BooneP2@michigan.gov or 517-335-4059.

Attachments

**DEFICIT DISTRICT QUARTERLY REPORT
TO THE HOUSE AND SENATE K-12 APPROPRIATIONS SUBCOMMITTEES**

**FINANCIAL ANALYSIS OF DEFICIT DISTRICTS
2017-18**

An analysis of the audited fiscal year 2017-18 financial data has been completed for districts that ended fiscal year 2016-17 with a deficit. The analysis is conducted using data collected from audited financial statements and the Financial Information Database (FID).

There were 19 districts that ended FY 2017 in deficit:

- 6 districts eliminated their deficit in FY 2018
 - Attachment B, Category 1
- 9 districts reduced their deficit in FY 2018
 - Attachment B, Category 2
- 1 district increased their deficit in FY 2018
 - Attachment B, Category 3
- 2 districts are eliminating their deficits with school operating taxes
 - Attachment B, Category 5
- 1 district closed at the end of FY 2018
 - Frederick Douglass International Academy closed June 30, 2018

Macomb Academy, Maple Valley Schools, Michigan Online School, Pinckney Community Schools, and Suttons Bay Public Schools began FY 2018 with a positive fund balance, but ended the year in deficit (Attachment B, Category 4).

Mackinaw City Public Schools had projected to reduce its deficit, but has now eliminated its deficit. Vanderbilt Area Schools had projected to eliminate its deficit, but has now increased its deficit.

Detroit Public Schools and Highland Park City Schools ended FY 2018 in deficit (Attachment B, Category 5). Their deficits are being eliminated through the capture of school operating taxes. Detroit Public Schools Community District replaced Detroit Public Schools at the beginning of FY 2017. The original Detroit Public Schools exists to pay off its accumulated deficit, while the new Detroit Public Schools Community District provides educational services. Highland Park City Schools was converted to a public school academy system in FY 2013.

CATEGORY 1

Schools that eliminated their deficit at June 30, 2018.

School Name	June 2016 Fund Balance	June 2017 Fund Balance	June 2018 Fund Balance	2018 GF Revenues	% Fund Balance is of Revenues
Iron Mountain Public Schools	(248,747)	(393,250)	194,180	7,511,797	2.59%
Mackinaw City Public Schools	(507,379)	(347,976)	17,732	2,652,983	0.67%
Menominee Area Public Schools	9,966	(69,446)	762,408	13,488,904	5.65%
Muskegon Heights School District	(2,007,918)	(2,430,766)	29,385	1,377,043	2.13%
Posen Consolidated School District No. 9	(65,006)	(4,473)	83,597	2,286,156	3.66%
Westwood Community Schools	(1,730,216)	(371,344)	400,537	22,678,536	1.77%

CATEGORY 2

Schools starting FY 2018 in deficit and ending the year with a reduced deficit.

School Name	June 2016 Fund Balance	June 2017 Fund Balance	June 2018 Fund Balance	2018 GF Revenues	% Deficit is of Revenues
Bay City Academy	(1,155,456)	(1,254,696)	(1,165,058)	2,971,554	-39.21%
Beecher Community School District	(1,932,459)	(1,126,534)	(672,189)	11,212,126	-6.00%
Benton Harbor Area Schools	(11,675,305)	(5,413,633)	(4,425,383)	27,246,971	-16.24%
Detroit Public Safety Academy	(714,853)	(621,393)	(543,862)	3,120,234	-17.43%
Gwinn Area Community Schools	268,419	(406,653)	(238,617)	11,263,186	-2.12%
Hazel Park City School District	(5,961,520)	(5,632,331)	(4,148,964)	37,525,225	-11.06%
Mt. Clemens Community School District	(2,168,202)	(708,073)	(128,172)	13,909,514	-0.92%
Pontiac City School District	(25,085,066)	(23,184,147)	(6,684,485)	61,393,312	-10.89%
South Lake Schools	(1,296,368)	(1,282,078)	(1,261,820)	19,725,950	-6.40%

CATEGORY 3

Schools starting FY 2018 in deficit and ending the year with a greater deficit.

School Name	June 2016 Fund Balance	June 2017 Fund Balance	June 2018 Fund Balance	2018 GF Revenues	% Deficit is of Revenues
Vanderbilt Area Schools	(67,267)	(50,518)	(92,145)	1,297,716	-7.10%

CATEGORY 4

Schools starting FY 2018 with a positive fund balance and ending in deficit.

School Name	June 2016 Fund Balance	June 2017 Fund Balance	June 2018 Fund Balance	2018 GF Revenues	% Deficit is of Revenues
Macomb Academy	445,279	77,115	(1,480,571)	1,452,302	-101.95%
Maple Valley Schools	618,587	331,114	(75,088)	11,227,704	-0.67%
Michigan Online School	NA	NA	(2,644,201)	0	
Pinckney Community Schools	(691,231)	147,882	(166,611)	27,838,783	-0.60%
Suttons Bay Public Schools	263,124	104,477	(213,426)	6,494,627	-3.29%

CATEGORY 5

Schools eliminating deficits with the capture of school operating taxes through the Department of Treasury.

School Name	June 2016 Fund Balance	June 2017 Fund Balance	June 2018 Fund Balance	2018 GF Revenues	% Deficit is of Revenues
Detroit Public Schools	(251,587,254)	(166,562,357)	TBD	TBD	TBD
Highland Park City Schools	(7,961,161)	(7,554,864)	(6,416,930)	2,344,869	-274%