



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

BRIAN J. WHISTON
STATE SUPERINTENDENT

MEMORANDUM

DATE: June 8, 2016
TO: House and Senate K-12 Appropriations Subcommittees
FROM: Brian Whiston, 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 (MDE) is required to report quarterly to the Legislature on school districts incurring year-end deficits and the districts' progress in reducing those deficits. In this third quarterly report for FY 2015-2016, an analysis of the projected FY 2015-2016 financial data has been completed for those school districts that ended FY 2014-2015 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.

Note: This report was prepared with data as of June 6, 2016.

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 superintendent of public instruction shall publicly present those reports to the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations."

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The following narrative provides relevant information regarding process, requirements, and selected district information; 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 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 DEP to MDE. MDE has a formal process in place to ensure that school districts develop and implement 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 ensure accurate completion of required forms, and district requirements related to districts in deficit. 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 (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 purposes does not negate the need to reduce expenditures in order to eliminate the deficit. As we continue to work with these critical districts, it became apparent that the districts also need to have a conversation with Office of Retirement Systems if there is an issue with MPSERS payments and with the Department of Licensing and Regulatory Affairs should the district have reimbursement issues related to Unemployment Insurance. Both agencies are invited to these meetings as necessary.

Public school academies (charter schools) are treated the same as traditional districts when faced with a deficit situation. They receive technical assistance and must submit a DEP to MDE and have it approved.

REQUIREMENTS IN LAW

DISTRICT REQUIREMENTS

Michigan is a locally controlled state; 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 are to be imposed on deficit districts: (1) withholding state school aid [MCL 388.1702(1)] (see statutory language below); 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).

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." There has been no instance where, as State Superintendent, I have asked the Attorney General's involvement regarding deficit districts.

EARLY WARNING LEGISLATION

Legislation to address districts and PSAs that trigger "early warning" indicators of financial stress was signed by Governor Snyder on July 7, 2015. The legislation is intended to allow school districts to receive assistance from their Intermediate School District and the Department of Treasury prior to facing a financial emergency.

The legislation expands the role of the Department of Treasury, including oversight of districts that have been in deficit or project to be in deficit, for more than five years. Those districts will be required to submit an Enhanced Deficit Elimination Plan (EDEP) to Treasury. Of the 41 districts that were in deficit at June 30, 2015, 17 are under Treasury's oversight:

- Albion Public Schools
- Beecher Community School District
- Benton Harbor Area Schools
- Bridgeport Spaulding Community School District
- Clintondale Community Schools
- Detroit City School District
- Flint Community Schools
- Hazel Park City School District
- Highland Park City Schools
- Mackinaw City Public Schools
- Mt. Clemens Community School District
- Muskegon Heights School District
- New Haven Community Schools
- Pontiac City School District
- Southgate Community School District
- Vanderbilt Area Schools
- Westwood Community Schools

In addition to the transfer of the above districts to Treasury's oversight pursuant to the Early Warning legislation, that legislation also called for the development of metrics that could be used to help predict the possibility of other districts going into deficit. MDE staff has worked with Treasury staff and independently to determine those metrics. MDE staff will begin to visit schools that are struggling financially in the very near future to review the district's budget development process and budgetary/spending controls.

Department staff will also monitor districts who have recently eliminated their deficits in order to assist them from returning to deficit.

DEFICIT DISTRICT DATA

Attachments A and B provide the financial analysis for FY 2015-2016.

Additional questions about this report should be directed to Dan Hanrahan, Office of State Aid and School Finance, at HanrahanD@michigan.gov or (517) 373-3350.

Attachments

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

**FINANCIAL ANALYSIS OF MICHIGAN DEFICIT SCHOOL DISTRICTS
PROJECTED 2015-2016**

An analysis of the projected fiscal year 2015-2016 (FY2016) financial data has been completed for those districts that ended fiscal year 2015 (FY2015) with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans (DEPs) and required monthly budget control reports.

Forty-one (41) districts and public school academies ended FY2015 in a deficit position. One was a public school academy that closed at the end of FY2015. Attachment B lists the remaining 40 districts and public school academies that ended FY2015 in a deficit position. Fifty-eight (58) districts and public school academies ended FY2014 in a deficit position. Two were public school academies which closed at the end of FY2014.

Of the 40 operating districts that ended FY2015 in deficit, eighteen (18) are projecting to successfully eliminate their deficit by June 30, 2016 (Attachment B, Category 1). Fifteen (15) are projecting to reduce their deficit in FY2016 (Attachment B, Category 2). Five (5) are projecting to increase their deficit in FY2016 (Attachment B, Category 3). Two (2) districts that ended FY2015 in deficit were converted to public school academy systems in FY2013. The predecessor local districts' deficits are being eliminated through the capture of school operating taxes (Attachment B, Category 5).

At this time, we are not aware of any districts that began FY2016 with a positive fund balance and are projecting to end the year with a deficit fund balance (Attachment B, Category 4). That number may change as the year progresses and the districts submit their annual financial data due on November 1, 2016.

Attachment B also includes fund balance information for June 30, 2014 and June 30, 2015.

CATEGORY 1 – Districts that project to eliminate their deficit at June 30, 2016.

ISD/School Name	June 2014 Fund Balance	June 2015 Fund Balance	Projected June 2016 Fund Balance	Projected 2016 GF Revenues	% Deficit is of Revenues
Akron Fairgrove Schools	(\$39,679)	(\$7,295)	\$52,973	\$2,838,525	1.87%
Alpena Public Schools	(\$1,574,627)	(\$314,015)	\$240,321	\$37,589,873	0.64%
Bangor Public Schools	(\$452,425)	(\$108,978)	\$83,212	\$12,115,679	0.69%
Battle Creek Montessori Academy	(\$251,219)	(\$137,174)	\$9,127	\$1,775,463	0.51%
Camden Frontier Schools	(\$55,243)	(\$80,040)	\$134,699	\$4,681,967	2.88%
Clintondale Community Schools	(\$2,161,441)	(\$1,087,539)	\$42,490	\$27,722,778	0.15%
Lincoln Consolidated Schools	(\$1,372,785)	(\$2,355,136)	\$882,732	\$44,006,689	2.01%
Macomb Montessori Academy	(\$213,139)	(\$151,568)	\$14,189	\$2,184,502	0.65%
Muskegon Montessori Academy for Environmental Change	(\$307,246)	(\$155,017)	\$32,669	\$1,298,784	2.52%
New Haven Community Schools	(\$167,869)	(\$296,247)	\$46,455	\$12,823,625	0.36%
North Adams-Jerome Public Schools	(\$108,857)	(\$45,036)	\$23,827	\$2,991,698	0.80%
Perry Public Schools	(\$1,578,822)	(\$557,146)	\$110,180	\$11,474,221	0.96%
Sarah J. Webber Media Arts Academy	\$30,987	(\$63,900)	\$23,351	\$2,323,405	1.01%
Southgate Community Schools	(\$3,982,984)	(\$1,401,094)	\$25,433	\$40,473,824	0.06%
Southwest Detroit Lighthouse Charter Academy	(\$145,344)	(\$125,078)	\$30,117	\$3,771,160	0.80%
Tahquamenon Area Schools	\$9,975	(\$130,074)	\$57,615	\$6,860,754	0.84%
Vanderbilt Area School District	(\$195,214)	(\$132,505)	\$4,875	\$1,446,025	0.34%
Warren Consolidated Schools	(\$2,167,334)	(\$364,861)	\$1,212,141	\$162,072,000	0.75%

CATEGORY 2 – Districts that began FY2016 in deficit and project to end the year with a reduced deficit.

ISD/School Name	June 2014 Fund Balance	June 2015 Fund Balance	Projected June 2016 Fund Balance	Projected 2016 GF Revenues	% Deficit is of Revenues
Albion Public Schools	(\$714,425)	(\$1,887,133)	TBD	TBD	
Bay City Academy	\$31,187	(\$1,359,477)	(\$1,205,767)	\$3,511,579	-34.34%
Benton Harbor Area Schools ^{A,B}	(\$15,145,607)	(\$14,752,758)	(\$14,702,759)	\$29,900,000	-49.17%
Bridgeport Spaulding Community School District	(\$2,924,401)	(\$1,692,848)	(\$1,334,541)	\$16,061,613	-8.31%
Cheboygan Area Schools	(\$232,119)	(\$382,004)	(\$9,103)	\$17,468,263	-0.05%
Dearborn Heights School District #7	(\$1,641,961)	(\$1,252,341)	(\$206,963)	\$24,591,222	-0.84%
Detroit Public Safety Academy	(\$537,993)	(\$763,191)	(\$750,834)	\$2,057,877	-36.49%
Garden City School District	(\$606,713)	(\$3,160,516)	(\$1,374,970)	\$45,357,656	-3.03%
Iron Mountain Public Schools	(\$224,664)	(\$558,152)	(\$313,651)	\$7,146,752	-4.39%
Mackinaw City Public Schools	(\$515,500)	(\$588,173)	(\$546,419)	\$2,210,587	-24.72%
Mt. Clemens Community Schools	(\$2,442,338)	(\$1,371,083)	(\$742,679)	\$12,177,099	-6.10%
Pinckney Community Schools	(\$1,915,772)	(\$1,464,141)	(\$1,381,878)	\$28,861,658	-4.79%
Pontiac School District ^{A, B}	(\$39,077,646)	(\$33,438,425)	(\$30,566,124)	\$76,821,000	-39.79%
Posen Consolidated School District #9	\$18,884	(\$49,041)	(\$10,326)	\$2,215,980	-0.47%
School District of the City of Hazel Park	(\$6,191,945)	(\$8,018,036)	(\$6,406,389)	\$39,626,659	-16.17%

CATEGORY 3 – Districts that began FY2016 in deficit and project to end the year with an increased deficit.

ISD/School Name	June 2014 Fund Balance	June 2015 Fund Balance	Projected June 2016 Fund Balance	Projected 2016 GF Revenues	% Deficit is of Revenues
Beecher Community School District	(\$988,531)	(\$1,822,401)	(\$2,001,569)	\$13,291,392	-15.06%
Detroit Public Schools	(\$169,460,308)	(\$215,931,919)	(\$236,834,234)	\$710,524,988	-33.33%
Flint Community Schools ^C	(\$21,964,181)	(\$5,555,858)	(\$8,854,606)	\$72,697,434	-12.18%
South Lake Schools	(\$229,386)	(\$1,131,425)	(\$1,362,391)	\$20,064,138	-6.79%
Westwood Community School District	(\$4,977,195)	(\$2,911,116)	(\$3,005,156)	\$24,819,468	-12.11%

CATEGORY 5 – Districts whose deficits are being eliminated through the capture of school operating taxes through Department of Treasury.

ISD/School Name	June 2014 Fund Balance	June 2015 Fund Balance	Projected June 2016 Fund Balance	Projected 2016 GF Revenues	% Deficit is of Revenues
Highland Park City Schools ^{A, B, D}	TBD	TBD	(\$7,845,072)	\$1,577,911	-497.18%
Muskegon Heights School District ^{A, B, D}	(\$1,089,576)	(\$1,779,531)	(\$1,662,398)	\$1,443,466	-115.17%

SUMMARY:

No. of Districts	Cat.	Description
18	1	Districts that project to eliminate their deficit at June 30, 2016
15	2	Districts that began FY2016 in deficit and project to end the year with a reduced deficit.
5	3	Districts that began FY2016 in deficit and project to end the year with a greater deficit.
0	4	Districts that began FY2016 with a positive fund balance but project to end the year in deficit.
2	5	Districts whose deficits are being eliminated through the capture of school operating taxes through Department of Treasury

NOTES:

A	District has an emergency loan from Treasury.
B	Financial emergency declared under PA436.
C	A note in the district's audited financial statements indicates that the district may owe Genesee ISD up to \$8.6 million that is not recognized in the deficit.
D	District exists as authorizer of an academy.