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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF EDUCATION  
LANSING

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STATE SUPERINTENDENT

September 11, 2014

**MEMORANDUM**

**TO:** House and Senate K-12 Appropriations Subcommittees

**FROM:** Mike Flanagan, State Superintendent

**SUBJECT:** Quarterly Report to the Legislature on Deficit Districts

**OVERVIEW**

Pursuant to language in Section 102 of the State School Aid Act (MCL 388.1702), 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 fourth quarterly report for FY 2013-2014, an analysis of the unaudited FY 2013-2014 financial data has been completed for those school districts that ended FY 2012-13 with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans (DEPs) and required monthly budget control reports received through September 2, 2014. It should be noted that since 1976, MDE has provided the Legislature with an annual report on local school districts in financial deficit.

Section 102(2) of the State School Aid Act (PA 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 concerning the progress made by districts and intermediate districts in reducing those deficits. On a quarterly basis, the superintendent of public instruction shall publicly*

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*present those reports to the appropriations subcommittees of the legislature responsible for K-12 education appropriations."*

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 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 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](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 (LARA) should the district have reimbursement issues related to Unemployment Insurance. Both agencies are invited to these meetings as necessary.

Since my last report to you on June 5, 2014, MDE staff has met in Lansing with the following deficit district:

### **Alpena Public Schools**

- Through the monthly budget control reports required of deficit districts by statute and discussions with district personnel, it was clear that the district would not achieve the employee concessions projected in their approved DEP. As a result, a well-attended meeting was held in June 2014. The district subsequently submitted a DEP that was approved in July.

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. 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, 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, required information. Since my June report to you, the Mackinaw City Public Schools complied with the law in submitting their DEP and I have released all withheld state aid payments.

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.

## **ADDITIONAL SELECTED DISTRICT INFORMATION**

### **PONTIAC CITY SCHOOLS**

As mentioned in previous quarterly reports, the Pontiac City School District is operating under a consent agreement pursuant to 2012 PA 436. While the deficit situation at the district remains serious, the MDE is encouraged by progress made in large part due to the involvement of the consent agreement consultant and the ISD (Oakland Schools). Treasury and MDE staff continue to meet with the district in person and via phone on an ongoing basis.

### **DETROIT PUBLIC SCHOOLS**

The MDE was unable to approve the DEP submitted by the Detroit Public Schools in April 2014 for several reasons including that it did not recognize the full amount of the deficit and was contingent on enhancement millage revenues yet to be voted. The district requested and was granted additional time to prepare a revised DEP and did so on August 15, 2014. The revised DEP recognizes the enhancement millage defeat and incorporates a 10% compensation concession. That DEP was approved on August 19, 2014, in part so that the district was eligible for a cash flow borrowing, although I subsequently expressed reservations with the 10% concessions and its potential impact on student achievement. We have now been notified that the district plans to amend the DEP and has been given a time extension to do so. MDE has formally requested the district submit a revised DEP by November 6, 2014. We continue to have dialogue with the Emergency Manager and the Chief Financial Officer of the district.

### **BENTON HARBOR AREA SCHOOLS**

As previously reported, on April 23, 2014, the Local Emergency Financial Assistance Loan Board determined that probable financial stress exists at the district pursuant to 2012 PA 436. As required by that statute, a Review Team was appointed and their report was submitted to the Governor on August 1, 2014. On August 19, 2014, the Governor notified the district that he concurred with the Review Team's finding of a financial emergency. The district has subsequently adopted a resolution choosing the consent agreement option pursuant to Section 8 of the statute. Negotiations on the consent agreement will begin shortly and must be completed by September 25, 2014.

### **SAGINAW PUBLIC SCHOOLS**

The deficit situation remains serious, as the district projects another increase to their deficit for FY 2013-14 (Category 3 in Attachment B). MDE approved their revised DEP on September 2, 2014, which includes the closure of a high school in 2015-16. It is imperative that the district work to meet the annual fund balance targets set in this plan.

### **FLINT COMMUNITY SCHOOLS**

The deficit situation has become increasingly serious over the last few months. In June, it was discovered that the deficit would almost double, increasing to \$20.4 million (Category 3 in Attachment B). In July, the Genesee ISD filed a lawsuit for \$8.6 million alleging that the district misspent vocational education millage money. MDE has

reviewed the revised DEP submitted on July 31, 2014 and will be collecting weekly pupil count data through September to verify the plan's validity.

### **FINANCIAL INDEPENDENCE TEAM LEGISLATION**

A proposed joint effort between MDE, Treasury, and CEPI would develop an early warning system to identify troubled schools earlier. In addition, the Governor is recommending a Financial Independence Team consisting of new staff from both Treasury and MDE. Under this collaborative proposal, MDE and Treasury would work proactively to help financially struggling districts that are not quite yet in deficit but appear headed in that direction. Senate Bills 949 through 957 have been introduced and would give the two departments the authority needed for early intervention.

### **DEFICIT DISTRICT DATA**

Attachments A and B provide the financial analysis for FY 2013-14.

Additional questions about this report should be directed to Glenda Rader, Office of State Aid and School Finance, at [raderg@michigan.gov](mailto: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  
UNAUDITED 2013-2014**

An analysis of the unaudited fiscal year 2013-2014 (FY2014) financial data has been completed for those districts that ended fiscal year 2013 (FY2013) with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans (DEPs) and required monthly budget control reports received through September 2, 2014.

Fifty-two (52) districts and public school academies ended FY2013 in a deficit position. One of those districts consolidated with another district effective July 1, 2013. Additionally, two of the districts that ended FY2013 with a deficit dissolved subsequent to June 30, 2013, and one academy was closed by its authorizer. Attachment B lists the remaining 48 districts and public school academies that ended FY2013 in a deficit position. Attachment B also includes fund balance information for June 30, 2012 and June 30, 2013.

Of the 48 operating districts that ended FY2013 in deficit, ten (10) project to have successfully eliminated their deficit by June 30, 2014 (Attachment B, Category 1). Twenty-six (26) project to have reduced their deficit in FY2014 (Attachment B, Category 2). Ten (10) districts project to have increased their deficit in FY2014 (Attachment B, Category 3). Two (2) districts that ended FY2013 in deficit were converted to public school academy systems. The predecessor local districts' deficits are being eliminated through the capture of school operating taxes (Attachment B, Category 5).

Twelve (12) districts that began FY2014 with a positive fund balance project to have ended the year with a deficit fund balance (Attachment B, Category 4). That number may change as districts submit their annual financial data due on November 15, 2014.

NOTE: The 2013-14 data in this report are projections from the districts and are subject to change when the audited data is submitted.

ISD/School Name	June 2012 Fund Balance	June 2013 Fund Balance	Projected June 2014 Fund Balance	Projected 2014 GF Revenues	% Deficit is of Revenues
<b>CATEGORY 1</b>					
Districts that project to eliminate their deficit by June 30, 2014					
<b>Alpena-Montmorency-Alcona ESD</b>					
Atlanta Community Schools	\$81,446	(\$31,842)	\$18,027	\$2,775,350	0.65%
<b>Genesee ISD</b>					
Alternative Path Academy	NA	(\$47,099)	\$26,042	\$314,139	8.29%
<b>Menominee ISD</b>					
Menominee Area Public Schools	(\$129,287)	(\$53,664)	\$151,471	\$12,780,276	1.19%
<b>Monroe County ISD</b>					
Bedford Public Schools	(\$626,901)	(\$189,632)	\$41,142	\$39,074,622	0.11%
<b>Muskegon Area ISD</b>					
Muskegon Heights Public School Academy	NA	(\$553,763)	\$961	\$11,342,204	0.01%
<b>Oakland Schools</b>					
Avondale School District	(\$1,338,397)	(\$239,564)	\$178,304	\$36,717,079	0.49%
Oak Park School District	(\$5,557,347)	(\$1,617,163)	\$54,002	\$47,196,771	0.11%
Michigan Math and Science Academy	\$170,974	(\$76,117)	\$56,655	\$4,324,651	1.31%
<b>Washtenaw ISD</b>					
Ypsilanti Community Schools	(\$9,014,364)	(\$7,511,013)	\$7,834,088	\$69,175,000	11.33%
<b>Wayne RESA</b>					
River Rouge School District	(\$3,427,203)	(\$1,107,736)	\$277,068	\$17,922,147	1.55%
<b>CATEGORY 2</b>					
Districts that began FY2014 in deficit and project to end the year with a reduced deficit.					
<b>Genesee ISD</b>					
Beecher Community School District	\$680,450	(\$701,015)	(\$669,559)	\$16,182,358	-4.14%
<b>Gratiot-Isabella RESD</b>					
Ashley Community Schools	(\$164,856)	(\$225,307)	(\$38,074)	\$2,579,622	-1.48%
<b>Copper Country ISD</b>					
Hancock Public Schools	(\$743,491)	(\$514,291)	(\$63,470)	\$6,822,177	-0.93%
<b>Livingston ESA</b>					
Brighton Area Schools	(\$7,388,781)	(\$8,500,481)	(\$4,205,927)	\$57,284,431	-7.34%
<b>Macomb ISD</b>					
East Detroit Public Schools	(\$7,545,877)	(\$5,002,724)	(\$1,982,572)	\$37,253,950	-5.32%
Clintondale Community Schools	(\$4,772,258)	(\$3,405,650)	(\$1,657,369)	\$29,173,096	-5.68%
Mt. Clemens Community Schools	(\$4,790,635)	(\$3,586,719)	(\$2,163,717)	\$16,093,667	-13.44%
New Haven Community Schools	(\$323,332)	(\$236,549)	(\$169,180)	\$12,360,235	-1.37%
<b>Muskegon Area ISD</b>					
Muskegon Public Schools	\$1,295,727	(\$1,169,873)	(\$272,438)	\$53,131,798	-0.51%
<b>Newaygo County RESA</b>					
White Cloud School District	(\$693,720)	(\$580,276)	(\$135,384)	\$10,292,247	-1.32%
<b>Oakland Schools</b>					
Pontiac School District	(\$37,683,487)	(\$51,677,552)	(\$41,411,824)	\$76,637,190	-54.04%
School District of the City of Hazel Park	(\$1,527,137)	(\$3,919,402)	(\$2,560,075)	\$40,171,078	-6.37%



ISD/School Name	June 2012 Fund Balance	June 2013 Fund Balance	Projected June 2014 Fund Balance	Projected 2014 GF Revenues	% Deficit is of Revenues
<b>CATEGORY 2, continued</b>					
Districts that began FY2014 in deficit and project to end the year with a reduced deficit.					
<b>Cheboygen-Otsego-Presque Isle ESD</b>					
Vanderbilt Area School District	(\$155,449)	(\$221,573)	(\$97,339)	\$1,462,827	-6.65%
<b>Saginaw ISD</b>					
Bridgeport Spaulding Community School District	(\$2,561,221)	(\$3,221,274)	(\$2,454,240)	\$15,415,170	-15.92%
<b>Shiawassee RESD</b>					
Perry Public Schools	(\$1,083,873)	(\$1,689,022)	(\$1,460,326)	\$11,213,531	-13.02%
<b>Wayne RESA</b>					
Dearborn Heights School District #7	(\$657,094)	(\$1,769,214)	(\$1,083,264)	\$23,341,985	-4.64%
Hamtramck Public Schools	(\$3,776,824)	(\$3,443,659)	(\$1,611,333)	\$32,080,706	-5.02%
Redford Union Schools	(\$4,114,455)	(\$1,962,334)	(\$382,968)	\$28,571,367	-1.34%
Romulus Community Schools	\$2,393,436	(\$2,323,910)	(\$155,522)	\$34,417,004	-0.45%
Taylor School District	(\$5,941,851)	(\$8,834,147)	(\$4,136,286)	\$67,950,933	-6.09%
Westwood Community School District	(\$6,240,031)	(\$6,311,270)	(\$4,949,814)	\$25,142,469	-19.69%
Ecorse Public School District	(\$1,536,593)	(\$1,809,903)	(\$880,837)	\$9,346,278	-9.42%
Southgate Community Schools	(\$3,249,656)	(\$4,906,716)	(\$4,506,472)	\$42,740,832	-10.54%
Madison-Carver Academy	NA	(\$402,226)	(\$297,320)	\$2,801,307	-10.61%
Highland Park Public School Academy	NA	(\$620,248)	(\$433,075)	\$6,890,280	-6.29%
HEART Academy	(\$93,780)	(\$344,498)	(\$338,393)	\$1,606,478	-21.06%
<b>CATEGORY 3</b>					
Districts that began FY2014 in deficit and project to end the year with a greater deficit.					
<b>Berrien RESA</b>					
Benton Harbor Area Schools	(\$16,099,422)	(\$15,517,748)	(\$15,713,854)	\$31,011,540	-50.67%
<b>Alpena-Montmorency-Alcona ESD</b>					
Alpena Public Schools	\$1,070,904	(\$863,359)	(\$1,626,486)	\$34,588,350	-4.70%
<b>Calhoun ISD</b>					
Albion Public Schools	\$514,594	(\$149,003)	(\$318,065)	\$10,779,343	-2.95%
<b>Cheboygen-Otsego-Presque Isle ESD</b>					
Mackinaw City Public Schools	(\$23,914)	(\$345,160)	(\$549,466)	\$2,233,223	-24.60%
<b>Genesee ISD</b>					
Flint Community Schools	(\$11,497,002)	(\$10,403,722)	(\$20,412,865)	\$98,131,681	-20.80%
<b>Livingston ESA</b>					
Pinckney Community Schools	\$865,569	(\$1,847,424)	(\$1,924,225)	\$30,747,745	-6.26%
<b>Saginaw ISD</b>					
Saginaw City School District	(\$5,100,750)	(\$6,157,077)	(\$7,213,848)	\$85,605,325	-8.43%
<b>Van Buren ISD</b>					
Bangor Public Schools	\$154,974	(\$373,350)	(\$755,644)	\$11,449,279	-6.60%
<b>Washtenaw ISD</b>					
Lincoln Consolidated Schools	\$745,440	(\$679,918)	(\$1,822,024)	\$44,597,465	-4.09%
<b>Wayne RESA</b>					
Detroit Public Schools	(\$76,345,661)	(\$93,881,926)	(\$127,054,182)	\$727,487,958	-17.46%

ISD/School Name	June 2012 Fund Balance	June 2013 Fund Balance	Projected June 2014 Fund Balance	Projected 2014 GF Revenues	% Deficit is of Revenues
<b>CATEGORY 4</b>					
Districts that began FY2014 with a positive fund balance but project to end the year in deficit.					
<b>Calhoun ISD</b>					
Battle Creek Montessori Academy	NA	NA	(\$280,927)	\$1,202,348	-23.36%
<b>Dickinson-Iron ISD</b>					
Iron Mountain Public Schools	\$793,565	\$247,143	(\$151,548)	\$7,765,833	-1.95%
<b>Eaton RESA</b>					
Life Tech Academy	NA	NA	(\$77,699)	\$424,776	-18.29%
<b>Hillsdale ISD</b>					
North Adams-Jerome Public Schools	(\$114,796)	\$30,421	(\$114,059)	\$3,118,617	-3.66%
Camden Frontier Schools	\$202,543	\$184,226	(\$55,243)	TBD	
<b>Traverse Bay Area ISD</b>					
Suttons Bay Public Schools	\$415,871	\$131,076	(\$353,762)	\$7,996,585	-4.42%
<b>Macomb ISD</b>					
South Lake Schools	\$1,200,175	\$689,515	(\$448,330)	\$21,039,473	-2.13%
Warren Consolidated Schools	\$15,381,085	\$6,224,809	(\$4,845,274)	\$163,471,688	-2.96%
Macomb Montessori Academy	NA	NA	(\$498,873)	\$1,072,949	-46.50%
<b>Muskegon Area ISD</b>					
Muskegon Montessori Academy for Environmental Cha	NA	NA	(\$291,966)	\$664,121	-43.96%
<b>Wayne RESA</b>					
Detroit Public Safety Academy	NA	NA	(\$606,106)	\$813,597	-74.50%
Branch Line School	NA	NA	(\$88,280)	\$611,488	-14.44%
<b>CATEGORY 5</b>					
Districts whose deficits are being eliminated through the capture of school operating taxes through Department of Treasury					
<b>Muskegon Area ISD</b>					
Muskegon Heights School District	(\$11,896,251)	(\$1,117,702)	\$551,068 A, D	\$1,494,181	36.88%
<b>Wayne RESA</b>					
Highland Park City Schools	(\$12,170,066)	(\$7,638,145)	(\$5,684,389) A, D	\$2,667,485	-213.10%
<b>SUMMARY:</b>					
<b>No. of</b>	<b>Districts</b>	<b>Cat.</b>	<b>Description</b>		
10	1		Districts that project to eliminate their deficit by June 30, 2014		
26	2		Districts that began FY2014 in deficit and project to end the year with a reduced deficit.		
10	3		Districts that began FY2014 in deficit and project to end the year with a greater deficit.		
12	4		Districts that began FY2014 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		
<b>*NOTES:</b>					
A	District has an emergency loan from Treasury.				
B	Financial emergency declared under PA436.				
C	Note 2 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.				