



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

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GOVERNOR

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STATE TREASURER

**DATE:** December 8, 2016  
**TO:** House and Senate K-12 Appropriations Subcommittees  
**FROM:** Nick A. Khouri, State Treasurer  
**SUBJECT:** Quarterly Report to the Legislature on Deficit Districts

### **OVERVIEW**

On July 7, 2015, the Governor signed into law Public Acts 109-114, giving the Department of Treasury (the “Department”) additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs).

Pursuant to PA 111, (MCL 380.1220(2)(b)), the State Treasurer shall submit quarterly interim reports to the Legislature concerning school districts, ISDs, and PSAs that are subject to periodic financial status reports or are under an Enhanced Deficit Elimination Plan (EDEP). Moreover, on a quarterly basis, the State Treasurer shall publicly present those quarterly interim reports to the appropriations subcommittees of the Legislature responsible for K-12 state school aid appropriations. This is the State Treasurer’s fourth quarterly report to the Legislature.

### **EARLY WARNING**

Pursuant to 2015 PA 109 (MCL 380.1219(3)) the State Treasurer is required to determine whether or not “potential fiscal stress” exists within a school district, ISD or PSA; that an operating deficit may arise within a school district, ISD, or PSA during the current school fiscal year or the following two school fiscal years; or that a school district, ISD or PSA may be unable to meet its financial obligations while also satisfying the districts, ISDs, or PSAs obligations to provide public education services in a manner that complies with state law.

The Department uses two methods to determine the existence of potential fiscal stress. First, a projection model which extrapolates enrollment, revenue, expenditure, and fund balance for the next two school fiscal years using weighted historical trends. Second, a tri-annual budget review scheduled to coincide with district budget amendments in March, July, and October. The Department communicates with identified districts, ISDs, and PSAs before making a final determination of whether or not potential fiscal stress exists.

During the 2015-16 school fiscal year, potential fiscal stress was declared to exist in 18 districts identified by the projection model. Moreover, the potential for fiscal stress has since been declared for Muskegon Public Schools from reviewing the district’s 2016-17 budget for a total of 19 early warning districts.

Under the legislation, once the State Treasurer declares potential fiscal stress exists within a school district or PSA, then the governing body of the school district or PSA has 60 days to enter into a contract with an ISD or Authorizer to perform an administrative review. School districts, ISDs, or PSAs that do not enter into a contract may be subject to periodic reporting.

Eight districts contracted with an ISD or Authorizer for an administrative review. Eight districts chose not to contract with an ISD or Authorizer and are required to submit periodic financial status reports to Treasury.

Contracted ISDs and Authorizers must complete and submit an administrative review of the district or PSA issuing recommendations to improve the district or PSA’s financial standing. On a quarterly basis, the contracted ISD or Authorizer must submit a report on the status of the implementation of their recommendations.

The following school districts and PSAs are currently contracted with an ISD or Authorizer:

#	School District/PSA	Administrative Review ISD/Authorizer
1	Charlevoix Montessori Academy for the Arts	Saginaw Valley State University
2	Delton Kellogg Schools	Barry Intermediate School District
3	Fenton Area Public Schools	Genesee Intermediate School District
4	Flat River Academy (Formerly Grattan Academy)	Saginaw Valley State University
5	Muskegon Public Schools	Muskegon Area Intermediate School District
6	Kent City Community Schools	Kent Intermediate School District
7	Mayville Community School District	Tuscola Intermediate School District
8	Montague Area Public Schools	Muskegon Area Intermediate School District

The following school districts and PSAs are currently subject to Department periodic reporting:

#	School District/PSA	ISD/Authorizer
1	Adams Township School District	Copper Country Intermediate School District
2	Leslie Public Schools	Ingham Intermediate School District
3	Mar Lee School District	Calhoun Intermediate School District
4	Multicultural Academy	Bay Mills Community College
5	North Star Academy	Northern Michigan University
6	State Street Academy	Bay Mills Community College
7	Weston Preparatory Academy	Oakland University
8	Williamston Community Schools	Ingham Intermediate School District

### **REMOVED FROM EARLY WARNING REPORTING**

The Department reviewed Manistique Area Schools' periodic financial status reports, audited 2015-16 financial statement, and 2016-17 budget and assumptions determining that the potential for fiscal stress no longer exists in the district. As a result, the district has been removed from departmental oversight and will no longer be required to submit periodic financial status reports.

### **PRELIMINARY REVIEWS**

Pursuant to PA 110 (MCL 141.1544 Section 4(2)), the Department shall conduct a preliminary review to determine the existence of probable financial stress for all school districts subject to a DEP that provides for the elimination of deficit over a period exceeding 5 years.

The following seven school districts have gone through the preliminary review process in 2016 with the Emergency Loan Board (ELB) finding **no probable financial stress**:

Beecher Community Schools  
Bridgeport Spaulding Community School District  
Hazel Park City School District  
Mackinaw City Public Schools  
Mt. Clemens Community School District  
New Haven Community Schools  
Westwood Community Schools

As determined by statute, the following two school districts are subject to preliminary review by the ELB beginning January 2016:

Flint Community Schools  
Vanderbilt Area School

Treasury initiated the preliminary review process for Vanderbilt Area School on November 22, 2016. The Department shall provide a final report detailing its preliminary review to the ELB within 30 days following commencement of the preliminary review.

If the ELB determines that probable financial stress is evident, then the Governor must appoint a review team to determine whether a financial emergency does or does not exist. If the Governor confirms that a financial emergency does exist, then the school district must select one of the following options:

- Consent Agreement
- Emergency Manager
- Neutral Evaluation
- Chapter 9 Bankruptcy

If the ELB determines that no financial stress is evident, then the school district must complete an EDEP. The EDEP process is a collaborative approach between the Department and school districts to reduce and eliminate the deficit.

**REMOVED FROM EDEP REPORTING**

Pursuant to PA 111 (MCL 380.1220(5)), a school district, ISD, or PSA currently operating under a DEP that has not completely eliminated its deficit within 5 years after the initial DEP was submitted to the Michigan Department of Education (MDE) is required to submit an EDEP to the Department of Treasury.

As such, in addition to being subject to preliminary reviews, each of the above-mentioned nine districts are also subject to EDEPs. Regardless of whether the ELB determines that financial stress is evident, the district will be subject to department oversight.

As demonstrated by the districts' 2015-16 final audited statements, Clintondale Community Schools and Southgate Community School District have successfully eliminated their deficits and are no longer required to submit EDEP reports.

**REMOVED FROM PA 436 EMERGENCY MANAGEMENT**

On October 25, 2016, Emergency Manager Steve Schiller informed the Governor that the financial emergency in the Muskegon Heights Schools had been sufficiently addressed and recommended that a Receivership Transition Advisory Board (RTAB) be appointed in his place.

Consequently, Governor Rick Snyder declared an end to the financial emergency in the district on October 28, 2016, transferring authority and responsibilities to the RTAB.

Additional questions about this report should be directed to Paul G. Connors, Office of School Review and Fiscal Accountability, at [connorsp@michigan.gov](mailto:connorsp@michigan.gov) or (517) 241-1186.