



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

May 24, 2019

Rachael Eubanks
State Treasurer
430 W Allegan
Lansing, MI 48922

RE: Benton Harbor Area Schools Status

Dear Treasurer Eubanks,

I have included a brief overview of BHAS's current financial picture and a discussion of the future challenges the district may face.

Enrollment

BHAS enrollment has been declining at a rate of 5-10 percent per year, which has a direct impact on district revenues. The recent exception has been the 2017 school year when BHAS saw a 1.8 percent increase in enrollment due to the closure of a charter school that had been educating approximately 270 resident students from BHAS. The district's cash flow projections assume a continued student loss of 8 percent per year through FY 2022.

The district is in the process of appealing a pupil count audit that removed approximately 130 students from their FY 2018-19 pupil count. The \$1.09M reduction related to this audit is projected to be deducted from state aid payments between April 2019 and August 2019. If the appeal is denied, the school district will repay this amount over a period of up to 9 years subject to MDE approval.

Enrollment History:

Benton Harbor Area Schools	2013	2014	2015	2016	2017	2018
State Aid Membership	2,813.37	2,668.37	2,428.13	2,223.91	2,265.02	2,137.78
Change	(294.05)	(145.00)	(240.24)	(204.22)	41.11	(127.24)
Percent Change	-9.5%	-5.2%	-9.0%	-8.4%	1.8%	-5.6%

Outstanding Debt Obligations

As of 6/30/2018, the district's long-term debt obligations totaled \$12,075,000. This includes \$1,230,000 in two school building and site bonds maturing in 2022 and \$10,845,000 in five state emergency loans maturing between 2026 and 2031. Debt service payments are scheduled to jump from \$556,000 in FY19 (roughly \$285 per pupil) to \$910,000 in FY20 (roughly \$491 per pupil).

As of 6/30/2018, the district's short-term obligations total \$6,300,000 in state aid notes (SANs). SANs help districts manage cash flow challenges resulting from the difference between when school districts pay expenses and when they receive their state aid. On 3/7/2019, the school board approved the issuance of a tax anticipation note (TAN) pledging their 2019/2020 local property taxes. TANs help districts manage cash flow challenges arising from the difference between when districts make expenditures and when they receive revenues from the local 18-mill school operating tax.

BHAS's short and long-term debt totals approximately \$18.4 million dollars. If the district spends the full amount approved in the TAN board resolution (\$3.1M), their debt would be approximately \$21.5 million dollars at the end of FY20.

Cash Flow Concerns

Under current projections and absent additional borrowing, BHAS may experience cash flow challenges in the spring of 2020. The current cash flow projections are based on many assumptions including the following:

- The district will spread the repayment of the \$1.09M reduction in state aid from the pupil audit over several years
- The district will be able to manage the revenue loss associated with pupil declines by reducing expenditures by an equivalent amount

Under these assumptions, the district will likely not need the TAN until the spring of 2020. However, projecting cash flow is a dynamic process and future updates may change when the district is estimated to reach a low point in their cash. The Department will continue to monitor the financial situation in Benton Harbor and keep you updated on their progress.

Our department is currently providing technical assistance to the district by sending a member from our team to work in the district and support the CFO in the business office. Also, we are assisting the administration with budget development and projections for next year. If you have any questions or would like additional information, please contact me directly at (517) 335-2521 or FrayerS2@michigan.gov.

Sincerely,



Shelbi Frayer, Executive Director
Office of School Review and Fiscal Accountability