



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: June 1, 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 third quarterly report to the Legislature.

PERIODIC FINANCIAL STATUS REPORT

Pursuant to 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.

Under the legislation, if the State Treasurer declares potential fiscal stress exists within a school district, ISD, or PSA, then the governing body of the school district, ISD, 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 will be subject to periodic reporting.

The following school districts and PSAs have entered into a contract with an ISD or authorizer to perform an administrative review:

#	School District/PSA	Administrative Review ISD/Authorizer	Completion Date
1	Charlevoix Montessori Academy for the Arts	Saginaw Valley State University	July 25, 2016
2	Delton Kellogg Schools	Barry Intermediate School District	July 25, 2016
3	Fenton Area Public Schools	Genesee Intermediate School District	July 25, 2016
4	Grattan Academy	Saginaw Valley State University	July 25, 2016
5	Grosse Ile Township Schools	Wayne County Regional Education Service Agency (WCRESA)	July 25, 2016
6	Kent City Community Schools	Kent Intermediate School District	July 25, 2016
7	Mayville Community School District	Tuscola Intermediate School District	July 25, 2016
8	Montague Area Public Schools	Muskegon Area Intermediate School District	July 18, 2016

The following school districts and PSAs have not entered into contracts to perform administrative reviews and therefore are 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	Manistique Area Schools	Delta-Schoolcraft Intermediate School District
4	Mar Lee School District	Calhoun Intermediate School District
5	Multicultural Academy	Bay Mills Community College
6	North Star Academy	Northern Michigan University
7	State Street Academy	Bay Mills Community College
8	Taylor International Academy	Central Michigan University
9	Weston Preparatory Academy	Oakland University
10	Williamston Community Schools	Ingham Intermediate School District

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 Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

As determined by statute, the following 4 school districts are subject to preliminary review by the Emergency Loan Board (ELB) beginning January 2016:

Clintondale Community Schools
 Flint Community Schools
 Southgate Community School District
 Vanderbilt Area Schools

The following 7 school districts have gone through the preliminary review process since February, 2016 with the 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

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.

ENHANCED DEFICIT ELIMINATION PLANS

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 debt 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.

As such, in addition to being subject to preliminary reviews, each of the above-mentioned 11 districts are also subject to EDEPs. Regardless of whether or not the ELB determines that financial stress is imminent, the district will be subject to Departmental oversight.

Section 380.1220(5) also provides that if based on information included in a periodic financial status report, a DEP, or a request by the Superintendent of Public Instruction, the Department may determine that a district, ISD, or PSA is “subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress likely to result in recurring operating deficits or recurring financial stress.” If this determination is made, then the Department may require the district, ISD, or PSA to submit an EDEP in the form and manner determined by the Department.

In October 2015, the Department determined that Albion Community Schools was subject to rapidly deteriorating financial circumstances, persistently declining enrollment and other indicators of financial stress and thereby transferred oversight from MDE to the Department. In May 2016, Albion school voters, by a 3:1 margin, elected to annex with Marshall school district effective July 1, 2016. Upon annexation, the Department will have no further role with the former district.

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