



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

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GOVERNOR

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STATE TREASURER

DATE: June 1, 2017
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 PAs 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 Section 1220(2) of 2015 PA 111 (MCL §380.1220(2)), 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 seventh quarterly report to the Legislature.

EARLY WARNING

Pursuant to Section 1219(3) of 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 (2) 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 (2) methods to determine the existence of potential fiscal stress. First, a projection model that extrapolates enrollment, revenue, expenditure, and fund balance for the subsequent 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.

Pursuant to Section 1219(5) of 2015 PA 109 (MCL §380.1219(5)), if the State Treasurer declares that the 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. Within 90 days after entering into the contract, the ISD shall complete the administrative review. School districts, ISDs, or PSAs that do not enter into a contract may be subject to Department periodic reporting.

2016 POTENTIAL STRESS

In 2016, 19 districts were declared to have the potential for fiscal stress. 18 districts were identified using a financial projection model, and one (1) district was identified through budget reviews.

As of the previous quarterly report as of March 1st, two (2) of the 19 districts declared to have the potential for fiscal stress incurred general funds deficits, requiring deficit elimination plans (DEPs) and placing them under the authority of the Michigan Department of Education (MDE). Four (4) districts improved their financial position and are thereby no longer subject to oversight through MCL §380.1219.

Since March 1st, North Star Academy and Leslie Public Schools have improved their financial position and are thereby no longer subject to oversight through MCL §380.1219.

2017 POTENTIAL STRESS

In 2017, potential fiscal stress was declared to exist in seven (7) districts and PSAs identified by the projection model. The school districts were given 60 days to contract with an ISD or authorizer for an administrative review.

Of these districts, Menominee Public Schools has since passed a deficit budget amendment requiring a DEP and placing the district under the authority of MDE. Coloma Community Schools demonstrated an improved financial position and is thereby no longer subject to MCL §380.1219 oversight.

The five remaining districts and PSAs chose to not contract with an ISD or authorizer for an administrative review and are thereby subject to Department periodic reporting.

CURRENT STATUS

The following districts and PSAs contracted with an ISD or Authorizer for an administrative review and local oversight:

2016	School District/PSA	Administrative Review ISD/Authorizer
1	Charlevoix Montessori Academy for the Arts	Saginaw Valley State University
2	Fenton Area Public Schools	Genesee Intermediate School District
3	Flat River Academy	Saginaw Valley State University
4	Muskegon Public Schools	Muskegon Area Intermediate School District
5	Kent City Community Schools	Kent Intermediate School District
6	Mayville Community School District	Tuscola Intermediate School District
7	Montague Area Public Schools	Muskegon Area Intermediate School District

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

2016	School District/PSA	ISD/Authorizer
1	Mar Lee School District	Calhoun Intermediate School District
2	Multicultural Academy	Bay Mills Community College
3	Weston Preparatory Academy	Oakland University
4	Williamston Community Schools	Ingham Intermediate School District
2017	School District/PSA	ISD or Authorizer
5	Algonac Community School District	St. Clair County RESA
6	Britton Deerfield Schools	Lenawee Intermediate School District
7	Gwinn Area Community Schools	Marquette-Alger RESA
8	Michigan Technical Academy	Central Michigan University
9	Ontonagon Area School District	Gogebic-Ontonagon Intermediate School District

PRELIMINARY REVIEW

Pursuant to Section 4(2) of 2015 PA 110 (MCL §141.1544(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 five (5) years.

In 2016, eight (8) school districts were subject to the preliminary review process with the Emergency Loan Board (ELB) finding no probable financial stress. These districts are now subject to EDEP reporting. Three additional school districts were subject to the preliminary review process, but eliminated their deficit at the end of the 2015-16 school year and are no longer subject to Treasury Oversight.

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to Section 1220(5) of 2015 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 five (5) years after the initial DEP was submitted to MDE is required to submit an EDEP to the Department.

The eight (8) school districts that have gone through the preliminary review process are also required to submit an EDEP for Department approval. In addition to providing a deficit elimination plan, EDEPs require additional cash flow and budget-to-actual reporting on a monthly basis.

The following school districts are subject to Department EDEP reporting projecting to eliminate their deficit in the indicated fiscal year.

2016-17	School District/PSA	ISD or Authorizer
1	Bridgeport Spaulding Community School District	Saginaw Intermediate School District
2	New Haven Community Schools	Macomb Intermediate School District

2017-18	School District/PSA	ISD or Authorizer
3	Vanderbilt Area School	Cheb-Otsego-Presque Isle ESD
4	Westwood Community Schools	Wayne RESA
2018-19		
5	Mackinaw City Public Schools	Cheb-Otsego-Presque Isle ESD
2019-20		
6	Hazel Park City School District	Oakland Schools
7	Mt. Clemens Community School District	Macomb Intermediate School District
2020-21		
8	Beecher Community Schools	Genesee Intermediate School District

PA 436

Currently, the following school districts are subject to Department oversight pursuant to 2012 PA 436 (as amended, being MCL §141.1541-75):

Benton Harbor Area Schools – Consent Agreement
 Highland Park City Schools – Emergency Manager
 Pontiac School District – Consent Agreement

Muskegon Heights School District is currently under local oversight in the form of a Receivership Transition Advisory Board.

CONTACT

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