



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

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GOVERNOR

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DATE: March 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 sixth 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 that the potential for 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 employs two methods to determine the existence of potential fiscal stress. First, a projection model is used 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 is scheduled to coincide with 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.

2016 DECLARED POTENTIAL STRESS

During the 2015-16 school fiscal year, potential fiscal stress was declared to exist in 18 districts identified by the projection model. Through the budget review process an additional school was identified bringing the total to 19 districts.

Pursuant to Section 1219(5) of 2015 PA 109 (MCL §380.1219(5)), if the State Treasurer declares that potential fiscal stress exists, then the governing body of the school district or PSA has 60 days to enter into an administrative review contract with an ISD or authorizer. 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.

Grosse Ile Township School and Taylor International Academy are two of the 19 districts and incurred general fund deficits requiring deficit elimination plans (DEPs). The duration of these plans are less than five years, which places them under the authority for the Michigan Department of Education (MDE).

One district, Manistique Area Schools, improved its general fund balance and thereby is no longer subject to Department reporting mandates.

The Department reviewed the periodic financial status reports, audited 2015-16 financial statements, and 2016-17 budget and assumptions for all remaining 16 schools and determined that the potential for fiscal stress no longer exists in State Street Academy (Bay County), Delton-Kellogg Schools (Barry County), and Adams Township School District (Houghton County). As a result, the following 13 districts and PSAs remain under Treasury oversight.

The following districts and PSAs 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	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:

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

2017 DECLARED POTENTIAL STRESS

During the 2016-17 school fiscal year, potential fiscal stress was declared to exist in 7 districts and PSAs identified by the projection model.

The following school districts have been notified of the declaration and have 60 days to contract with an ISD or authorizer for an administrative review:

#	School District/PSA	ISD or Authorizer
1	Algonac Community School District	St. Clair County RESA
2	Britton Deerfield Schools	Lenawee Intermediate School District
3	Coloma Community Schools	Berrien RESA
4	Gwinn Area Community Schools	Marquette-Alger RESA
5	Menominee Area Public Schools	Menominee Intermediate School District
6	Michigan Technical Academy	Central Michigan University
7	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 5 years.

In 2016, the following 8 districts have gone through the preliminary review process with the Emergency Loan Board (ELB) finding no probable financial stress:

#	School District/PSA	ISD or Authorizer
1	Beecher Community Schools	Genesee Intermediate School District
2	Bridgeport Spaulding Community School District	Saginaw Intermediate School District
3	Hazel Park City School District	Oakland Schools
4	Mackinaw City Public Schools	Cheboygan-Otsego-Presque Isle ESD
5	Mt. Clemens Community School District	Macomb Intermediate School District
6	New Haven Community Schools	Macomb Intermediate School District
7	Vanderbilt Area School	Cheboygan-Otsego-Presque Isle ESD
8	Westwood Community Schools	Wayne RESA

The following 3 districts were subject to a preliminary review but completed the 2015-16 fiscal year with general fund surpluses. Consequently, a preliminary review was not required.

#	School District/PSA	ISD or Authorizer
1	Clintondale Community Schools	Macomb Intermediate School District
2	Flint Community Schools	Genesee Intermediate School District
3	Southgate Community School District	Wayne RESA

Currently, no district or PSA with DEPs under the authority of MDE is projecting to extend its DEP duration over 5 years and therefore subject to preliminary review.

ENHANCED DEFICIT ELIMINATION PLAN

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 5 years after the initial DEP was submitted to MDE is required to submit an EDEP to the Department.

The 8 school districts that have gone through the preliminary review process are required to submit an EDEP, which require additional cash flow and budget-to-actual monthly reporting.

PA 436

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

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

The financial emergency in Muskegon Heights School District has been rectified and the district is currently under local oversight in the form of a Receivership Transition Advisory Board (RTAB).

CONTACT

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.