



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

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GOVERNOR

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DATE: September 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 fourth quarterly report to the Legislature.

EARLY WARNING

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 completed an administrative review 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	Grattan Academy	Saginaw Valley State University
5	Grosse Ile Township Schools	Wayne County Regional Education Service Agency (WCRESA)
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 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

The Department performs bi-annual reviews of approximately 900 public school districts', PSAs', and ISDs' budgets and financial information to determine whether or not potential fiscal stress exists.

During the second review of the 2015-2016 school fiscal year, the Department identified potential fiscal stress in Muskegon Public Schools and Taylor Public Schools.

- Muskegon Public Schools contracted with the Muskegon Area Intermediate School District to perform an administrative review.
- Taylor Public Schools passed a deficit budget for the 2016-2017 school fiscal year and will be required to submit a Deficit Elimination Plan (DEP) to Michigan Department of Education (MDE).

Muskegon Area Intermediate School District shall complete an administrative review of Muskegon Public Schools' financial status within 90 days of the effective date of their contract – no later than November 2, 2016 – at which point they shall issue recommendations to the school district concerning steps they should consider taking to avoid a deficit. Taylor Public Schools oversight will remain with MDE unless the school district submits a DEP that provides for the elimination of its deficit over a period exceeding 5 years.

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 since February, 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 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 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.

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 or not the ELB determines that financial stress is evident, the district will be subject to Department oversight.

Southgate Community School District, New Haven Community Schools, and Clintondale Community Schools are projecting to end the 2015-2016 school fiscal year with a positive general fund balance. They will continue to submit the monthly financial reports until the audited financial statements are received.

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.