



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

DATE: September 1, 2020
TO: House and Senate K-12 Appropriations Subcommittees
FROM: Rachael Eubanks, State Treasurer *Rachael Eubanks*
SUBJECT: Quarterly Report - Deficit School Districts Pursuant to MCL §380.1220(2)

Attached please find one copy of the Quarterly Report of Deficit School Districts.

The report is required by Public Act 111 of 2015, the Revised School Code Section 1220(2) provides as follows:

- (1) 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).
- (2) 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 Department's third quarterly report for FY2019-2020 to the Legislature.

Additional questions about this report or other related questions for our Division should be directed to Jessica Thomas, Administrator of the School Review and Fiscal Accountability Division at ThomasJ45@michigan.gov or (517) 335-1215.

Attachments

Cc: Rachel Richards, Director of Legislative Affairs
Joyce A. Parker, Deputy State Treasurer, State and Local Finance
Jessica M. Thomas, Administrator, School Review and Fiscal Accountability
Heather Frick, Bureau Director, Bureau of Local Government and School Services

I. OVERVIEW

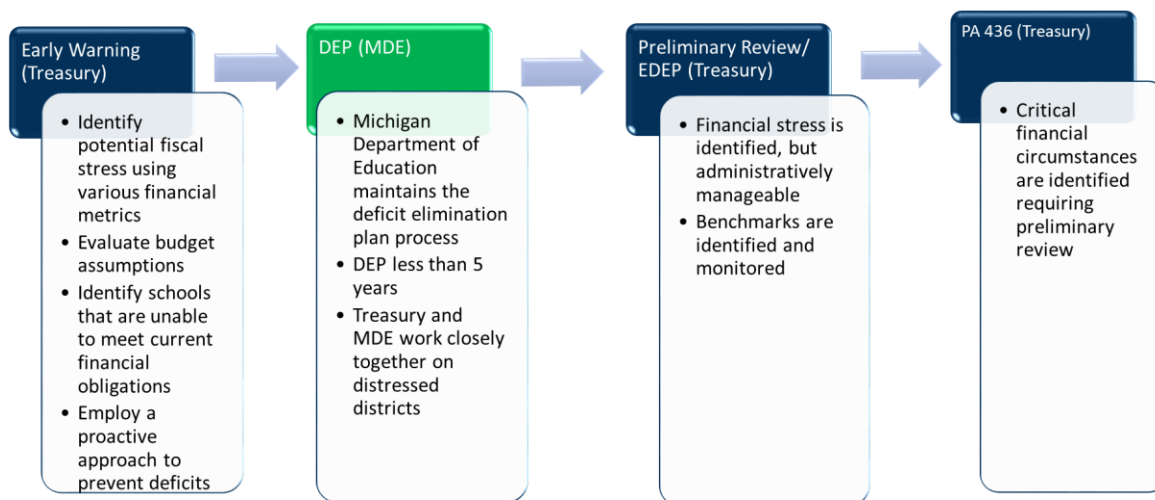
On July 7, 2015, the Governor signed into law public Acts 109-114, giving the Department of Treasury (the Department) additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs) facing fiscal distress. The School Review and Fiscal Accountability (SRFA) Division within the Michigan Department of Treasury works closely with the Michigan Department of Education (MDE) throughout this process.

Pursuant to MCL §380.1219(3), the State Treasurer is required to determine whether potential fiscal stress exists within a school district, intermediate school district (ISD) or public school academy (PSA). Conditions of fiscal stress may include but are not limited to: 1) An operating deficit within a school district, ISD, or PSA during the current school fiscal year or the following two school fiscal years 2) A districts inability 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.

II. DEPARTMENT OF TREASURY PROCESS

In collaboration with MDE, the Department has developed a process to identify fiscal stress by closely monitoring data collected from the districts audited financial statements, adopted budget, State Aid Status Reports, Financial Information Database (FID), and Michigan Student Data System (MSDS).

The process is defined in the following categories: Early Warning, Deficit Elimination Plan, Preliminary Review/Enhanced Deficit Elimination Plan, and Public Act 436 of 2012. .



III. EARLY WARNING

Two methods are used to determine the existence of potential fiscal stress using multiple years of data: a projection modeling tool and a review of district budgets. Key factors under consideration are student enrollment, general fund revenues, general fund expenditures, and general fund balance. Following is a summary of all districts showing signs of potential fiscal stress including the year they were identified.

TABLE 1: CURRENT EARLY WARNING DISTRICTS

	School District/PSA	Administrative Review (Management Co.)	Year Identified
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)	2016 Projection Model
2	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)	2016 Projection Model
3	Eau Claire Public Schools	Berrien ISD	2019 Projection Model
4	Forest Park School District	Dickinson-Iron ISD	2019 Budget Review
5	Beaverton Rural Schools	Clare-Gladwin RESA	2019 Budget Review
6	Clintondale Community Schools	Macomb ISD	2019 Budget Review
7	Bradford Academy	Bay Mills Community College (Choice Schools Associates)	2019 Budget Review
8	Madison District Public Schools	Oakland Schools	2019 Budget Review
9	Center Line Public Schools	Macomb ISD	2020 Budget Review
10	Ann Arbor Learning Community	Eastern Michigan University (Charter HR Educational Services, LLC)	2020 Projection Model
11	Canton Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020 Projection Model
12	Comstock Public Schools	Kalamazoo RESA	2020 Projection Model
13	Harper Woods, The School District of the City of Harper Woods	Wayne RESA	2020 Projection Model
14	International Academy of Saginaw	Bay Mills Community College (Educational Partnerships, Inc)	2020 Projection Model
15	Lake Linden-Hubbell School District	Copper County ISD	2020 Projection Model
16	Ridge Park Charter Academy	Lake Superior State University (National Heritage Academies, Inc.)	2020 Projection Model
17	Taylor Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020 Projection Model
18	Wellspring Preparatory High School	Bay Mills Community College (PrepNet, LLC)	2020 Projection Model

TABLE 2: EARLY WARNING DISTRICT STATISTICS

District Status	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020¹	Total
Total Number Declared	19	8	7	16	10	60
Total Remaining	2	0	0	6	10	18
Released from Oversight	15	5	3	6	0	29
Deficit Identified ²	2	2	2	3	0	9
District Closed	0	1	2	1	0	4

¹The Department will continue to review and evaluate budgets until June 30, 2020. These numbers will change throughout the year.

²Deficit Identified includes districts who have transitioned from the Department of Treasury’s Early Warning Process to Michigan Department of Education’s Deficit Elimination Plan (DEP) Process.

A. 2021 Potential Fiscal Stress

The Department is currently reviewing the board approved FY 2020-21 budgets and assessing the impact of COVID-19 on schools across the State of Michigan. The Department has recommended that districts amend the FY 2020-21 budgets in the fall when more information is available for analysis. Furthermore, the Department will not make determinations of potential fiscal stress on the original adopted budgets for the current fiscal year and will rely upon historical trends using multiple fiscal health indicators.

B. 2020 Potential Fiscal Stress

FY 2019-20 Budget Review

The Department declared potential fiscal stress on one (1) district showing signs of potential fiscal stress. In August 2019, the Department requested Corrective Action Plans from twenty-three (23) districts based on the budget reviews of the FY2019-20 original adopted budgets. Upon review, a determination of potential distress was not declared on twenty-two (22).

FY 2019-20 Projection Model

The Department declared potential fiscal stress on nine (9) districts with one (1) district still under review. For the FY 2019-20 projection model the Department ensured uniform application of the projection model to all districts in order to examine the potential fiscal stress for both LEA’s and PSA’s in this report. Due to these extraordinary times, the Department’s projection model methodology was consistently applied without the application of any exceptions for the PSA’s. Accordingly, the declarations during this cycle were predominately PSA’s (or charter schools) as the department focused on all fiscal indicators that may trigger irrespective to the District’s financial reporting model.

In January 2020, the Department requested Corrective Action Plans (CAP) from forty (40) districts based upon FY 2018-19 audited financial statements as presented in the Financial Information Database (FID). Subsequently, a determination of potential distress was not declared on twenty-eight (28) districts based upon additional information provided to the Department by the district.

Additionally, one (1) district closed and one (1) passed a deficit budget which will be transferred to Michigan Department of Education.

IV. ENHANCED DEFICIT ELIMINATION PLAN (EDEP)

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA that has not eliminated its deficit within 5 years after the initial DEP is required to submit an enhanced DEP (EDEP) to the Department of Treasury. A district may also be required to submit an EDEP if subjected to “rapidly deteriorating” financial circumstances.

As of August 2020, eighteen (18) districts have been subject to EDEP reporting. Nine (9) districts have eliminated their deficit and are no longer subject to Department oversight and two (2) projects to eliminate their deficit by the close of the school year. The ten (10) remaining EDEP districts are presented below. Of note, Beecher Community Schools and Hazel Park City School District have projected the elimination of the general fund deficit as of June 30, 2020. The Department is awaiting results of the FY2019-20 financial statement audit. Lastly, Flint, School District of the City of, is projecting a positive general fund balance for FY2019-20 due to a fiscal stability bond and additional ESSER funding, however, the District projects to remain in deficit until FY2035-36.

TABLE 4: CURRENT EDEP DISTRICTS¹

	School District/PSA	ISD or Authorizer (Management Co.)	2020 August State Aid Enrollment	FY 2019 Audited GF Balance	FY 2020 Projected GF Balance⁵
1	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	78.25	(\$90,632)	(\$51,342)
2	South Lake Schools	Macomb ISD	1,636.18	(\$1,660,912)	(\$1,801,786)
3	Beecher Community Schools	Genesee Intermediate School District	712.60	(\$106,085)	\$357,331
4	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	233.40	(\$481,461)	(\$636,013)
5	Bay City Academy	Lake Superior State University (Mitten Educational Management, LLC)	386.43	(\$986,750)	(\$659,095)
6	Pinckney Community Schools ²	Livingston ESA	2,438.31	(\$711,696)	(\$2,292,285)
7	Hazel Park City School District	Oakland Schools	3,063.39	(\$606,375)	\$374,186
8	Benton Harbor Area Schools	Berrien RESA	1,745.21	(\$3,744,778)	(\$3,244,778)
9	Pontiac City School District	Oakland Schools	3,938.09	(\$5,318,106)	(\$2,844,615)
10	Flint, School District of the City of	Genesee ISD	3,774.81	(\$3,349,028)	\$10,740,354

¹ The FY2020 projected general fund balance is from each districts board approved budget found on their transparency page.

²The Department is currently reviewing the District’s recently submitted EDEP for approval.

⁵Highland Park City Schools is eliminating its deficit through the capture of school operating taxes. Highland Park City Schools was converted to a Public School Academy (PSA) in FY 2012-13.

V. PUBLIC ACT 436 OF 2012

Public Act 436 of 2012 provides criteria in determining the financial condition, specifically, the existence of a financial emergency, within a local unit of government or school district. Section 141.1563 of the statute states that the Governor may appoint a Receivership Transition Advisory Board (RTAB) to monitor the affairs until the receivership is termination. As of this report date, one (1) district is subject an RTAB as detailed in Public Act 436 of 2012.

TABLE 6: CURRENT PUBLIC ACT 436 DISTRICTS				
	School District/PSA	ISD or Authorizer (Management Co.)	FY 2019 General Fund Balance	FY 2020 Projected General Fund Balance
1	Muskegon Heights Public Schools	Muskegon Area ISD	\$280,114	\$488,424

State oversight began in August 2012 for Muskegon Heights Public Schools and oversight by the RTAB began in October 2016 under Section 141.1563 of the statute.

- The District has added to the general fund balance for two consecutive years per the financial statement audits and continues to meet operating and capital debt service obligations.
- The District eliminated the deficit as of June 30, 2018 and the budget for FY 2019-20 projects an ending general fund balance of \$488,424.
- The district is currently paying emergency loans by a pledge on school operating taxes through a millage. The total amount of emergency loans issued is \$14.0 million. The total amount of emergency loans and interest as of July 2020 is \$18.8 million.