STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

DATE: March 1, 2021

TO: The Honorable Brad Paquette, Chair, House Appropriations Committee
The Honorable Wayne Schmidt, Chair, Senate Appropriations Committee

FROM: Rachael Eubanks, State Treasurer Rachael Eubanks

SUBJECT: Quarterly Report - Deficit School Districts Pursuant to MCL §380.1220(2)

Dear Legislators:

Attached is a copy of the Quarterly Report of Deficit School Districts for the first quarter of FY2020-21. The report is submitted pursuant to Public Act 111 of 2015, the Revised School Code Section 1220(2) that provides 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).

If you have additional questions about this report or other related questions concerning the information in this report, please contact this office.

Attachments: Executive Summary Report

Cc: House Appropriations Committee
Senate Appropriations Committee
Aaron Keel, 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

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

DATE: February 24, 2021

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Rachael Eubanks, State Treasurer

SUBJECT: Quarterly Report - Deficit School Districts Pursuant to MCL §380.1220(2)

EXECUTIVE SUMMARY

Pursuant to language in Section 1220(2) of the revised school code (MCL 380.1220), 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). This is the Department's first quarterly report for FY2020-21 to the Legislature where an analysis of FY 2019-20 audited financial data has been completed for all school districts.

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. 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.

The School Review and Fiscal Accountability (SRFA) Division within the Michigan Department of Treasury works closely with the Michigan Department of Education (MDE) and the Center for Educational Performance and Information (CEPI). 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).

TABLE 1: CURRENT EARLY WARNING DISTRICTS			
	School District/PSA	**Intermediate School District (Management Company)**	**Year Identified**
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)	2016
2	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)	2016
3	Clintondale Community Schools	Macomb ISD	2019
4	Canton Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020
5	Comstock Public Schools	Kalamazoo RESA	2020
6	Harper Woods, The School District of the City of Harper Woods	Wayne RESA	2020
7	International Academy of Saginaw	Bay Mills Community College (Educational Partnerships, Inc)	2020
8	Ridge Park Charter Academy	Lake Superior State University (National Heritage Academies, Inc.)	2020
9	Taylor Preparatory High School	Grand Valley State University (PrepNet, LLC)	2020
10	Wellspring Preparatory High School	Bay Mills Community College (PrepNet, LLC)	2020

EARLY WARNING DISTRICTS

Table 1 is a complete list of Early Warning districts showing signs of potential fiscal stress including the year they were first identified. Table 1 includes ten (10) districts: seven (7) PSAs and three (3) LEAs. Since the December 2020 Quarterly Report, six (6) districts have been removed from this list.

TABLE 2: EARLY WARNING DISTRICT STATISTICS							
District Status	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Total**
Total Declarations of Potential Fiscal Stress	19	8	7	16	10	TBD[2]	60
Districts Remaining in Oversight	2	0	0	1	7	TBD[2]	10
Districts Released from Oversight	15	5	3	6	0	6	35
Deficit Districts Identified[1]	2	2	2	3	2	TBD[2]	11
District Closed After Potential Fiscal Stress Identified	0	1	2	1	0	0	4

Note 1: Districts identified by the Department as showing signs of potential fiscal stress that ended the year with a general fund deficit.
Note 2: Treasury is reviewing FY 2020-21 data for current year determinations for potential fiscal stress.

The Early Warning District Statistics presented in Table 2 is a comprehensive list of all districts required to report to the Department at specific years since the enactment of Public Act 109-113 of 2015.

TABLE 3: CURRENT EDEP DISTRICTS					
	School District/PSA	**ISD or Authorizer (Management Co.)**	**2021 February Enrollment[3]**	**FY 2020 Audited GF Balance**	**FY 2021 Projected GF Balance[1]**
1	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	82	$(39,146)	$107,714
2	South Lake Schools	Macomb ISD	1,614	$(2,319,328)	$(2,030,634)[2]
3	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	219	$(510,317)	$(449,548)
4	Bay City Academy	Lake Superior State University	407	$(811,258)	$(95,523)
5	Pinckney Community Schools	Livingston ESA	2,412	$(1,967,697)	$(700,042)
6	Benton Harbor Area Schools	Berrien RESA	1,770	$(1,215,316)	$(1,740,316)
7	Pontiac City School District	Oakland Schools	3,872	$(1,900,416)	$1,134,858
8	Flint, School District of the City of	Genesee ISD	3,623	$11,856,105	$3,660,246

Note 1: The column titled "FY2021 Projected GF Balance" represents the estimates as approved by the District Board of Education.
Note 2: South Lake Schools budget does not account for the audited beginning fund balance as this is their original budget.
Note 3: The February State Aid Enrollment projections have been adjusted to reflect the "Super Blend" calculation

ENHANCED DEFICT ELIMINATION PLAN (EDEP) DISTRICTS

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

Since the December 2020 Quarterly Report, Beecher Community Schools and Hazel Park City School District have eliminated their general fund deficit as of June 30, 2020 as projected and no longer subject to Department oversight. Additionally, School District of the City of Flint, has ended the year with a positive general fund balance for FY2019-20 mainly due to proceeds from the issuance of a voter approved fiscal stability bond, however, the District remains in deficit through FY2035-36. Table 3 contains a total of eight (8) EDEP districts categorized that includes: two (2) PSAs and eight (6) LEAs.

TABLE 4: CURRENT PUBLIC ACT 436 DISTRICTS				
	School District/PSA	**ISD or Authorizer (Management Co.)**	**FY 2020 General Fund Balance**	**FY 2021 Projected General Fund Balance**
1	Muskegon Heights Public Schools	Muskegon Area ISD	$653,744	$696,964

Note 1: The column titled "FY2021 Projected GF Balance" represents the estimates as approved by the District Board of Education.
Note 2: Highland Park City Schools was a P.A. 436 school District until they developed a plan to eliminate their deficit through a pledge on school operating taxes through a millage. The District was restructured to a Public School Academy in FY2012-13.

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 terminated. As of this report date, one (1) district is subject to an RTAB as detailed in Public Act 436 of 2012. Since the December 2020 Quarterly Report, the District has amended the FY2020-21 budget and projected ending general fund balance.