



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: March 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 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 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 second quarterly report to the Legislature.

PERIODIC FINANCIAL STATUS REPORT

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.

In February 2016, the Department applied a fiscal projection model to historical Financial Information Database (FID) data. This model identified 75 school districts (Attachment A) as having a projected deficit within the current fiscal year or the following two school fiscal years. The projection model incorporates four key financial indicators, which are enrollment, revenue, expenditure, and fund balance. These school districts were sent a communication to determine if a corrective action plan had been implemented, or if there was an explanation for a decrease in general fund balance. The Department reviewed each school district’s response and financial data to determine whether potential fiscal stress existed in the school district. Of the aforementioned 75 school districts identified, the State Treasurer has declared **potential** fiscal stress in the following:

School District	County
Traditional Public School	
1. Adams Township School District	Houghton County
2. Delton Kellogg Schools	Barry County
3. Fenton Area Public Schools	Genesee County
4. Grosse Ile Township Schools	Wayne County
5. Kent City Community Schools	Kent County
6. Lawrence Public Schools	Van Buren County
7. Leslie Public Schools	Ingham County
8. Manistique Area Schools	Schoolcraft County
9. Mar Lee School District	Calhoun County
10. Mayville Community School District	Tuscola County
11. Montague Area Public Schools	Muskegon County
12. Taylor International Academy	Oakland County
13. Williamston Community Schools	Ingham County
Public School Academy	
14. State Street Academy (Bay County PSA)	Bay County
15. Charlevoix Montessori Academy for the Arts	Charlevoix County
16. Grattan Academy	Montcalm County
	Kent County
17. North Star Academy	Marquette County
18. Multicultural Academy	Washtenaw County
19. Weston Preparatory Academy	Wayne County

*The Department has removed the declaration of potential fiscal stress for two school districts that have provided additional financial corrective measures.

Under the legislation, the school district can choose to contract with an Intermediate School District (ISD) or Authorizer to perform an administrative review. In lieu of the above-mentioned ISD or Authorizer option, the State Treasurer may require the school district to submit periodic financial status reports. Periodic reporting will be in an agreed upon format between the Department and the school district. The reporting will be used to monitor the ongoing financial circumstances and provide assistance as needed.

PRELIMINARY REVIEWS

Pursuant to PA 110 (MCL 141. 1544), the Department shall conduct a preliminary review to determine the existence of probable financial stress for all school districts subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

As determined by statute, the following 9 school districts are subject to preliminary review by the Emergency Loan Board (ELB) beginning January 2016:

Bridgeport Spaulding Community School District
Clintondale Community Schools
Flint Community Schools
Hazel Park City School District
Beecher Community Schools
New Haven Community Schools

Southgate Community School District
Vanderbilt Area Schools
Westwood Community Schools

The following 2 school districts have gone through the preliminary review process on February 17, 2016 with a finding of no probable fiscal stress:

Mackinaw City Public Schools
Mt. Clemens Community School District

If the ELB determines that fiscal 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 fiscal 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 reducing deficits.

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to PA 111 (MCL 380.1220(5)), a school district, ISD, or PSA currently operating under a DEP which has not completely eliminated its debt within 5 years after the initial DEP was submitted to the Michigan Department of Education (MDE) will now be required to submit an EDEP to the Department.

As such, in addition to being subject to preliminary reviews, each of the above-mentioned 11 districts are also subject to EDEPs. Regardless of whether or not the ELB determines that fiscal stress is imminent, the district will be subject to the Department's oversight.

Section 380.1220(5) also provides that if based on information included in a periodic financial status report, a DEP, or a request by the Superintendent of Public Instruction, the Department may determine that a district, ISD, or PSA is "subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress likely to result in recurring operating deficits or recurring financial stress." If this determination is made, then the Department may require the district, ISD, or PSA to submit an EDEP in the form and manner determined by the Department.

Albion Community Schools has experienced rapidly deteriorating financial circumstances and is currently under an EDEP.

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.

Attachment A – Projected Deficit School District Indicator List

ACE Academy (SDA)	Kent City Community Schools
Adams Township School District	Lakeview Public Schools (Macomb)
Addison Community Schools	Lakewood Public Schools
Alanson Public Schools	Lawrence Public Schools
Algonac Community School District	Leslie Public Schools
Almont Community Schools	Linden Charter Academy
Battle Creek Public Schools	Madison District Public Schools
Bay County PSA	Manchester Community Schools
Canton Charter Academy	Manistique Area Schools
Center Line Public Schools	Mar Lee School District
Charlevoix Montessori Academy for the Arts	Mayville Community School District
Chippewa Hills School District	Metro Charter Academy
Cornerstone Health and Technology School	Mid-Peninsula School District
Dansville Schools	Montague Area Public Schools
Delton Kellogg Schools	Multicultural Academy
DeTour Arts and Technology Academy	Nah Tah Wahsh Public School Academy
Detroit Leadership Academy	North Star Academy
Detroit Premier Academy	Norway-Vulcan Area Schools
Dove Academy of Detroit	Plymouth Educational Center Charter School
East Grand Rapids Public Schools	Powell Township Schools
Farmington Public School District	Reading Community Schools
Faxon Language Immersion Academy	Ridge Park Charter Academy
Fenton Area Public Schools	Ross-Hill Academy
Fitzgerald Public Schools	Taylor International Academy
Fowler Public Schools	The Greenspire School
Frontier International Academy	Universal Academy
GEE Edmonson Academy	Vanderbilt Charter Academy
Gibraltar School District	Walker Charter Academy
Global Preparatory Academy	Webberville Community Schools
Grattan Academy	Wellspring Preparatory High School
Grosse Ile Township Schools	West Bloomfield School District
Hamilton Academy	West MI Academy of Arts and Academics
Hamtramck Academy	Weston Preparatory Academy
Hanover-Horton School District	William C. Abney Academy
Harrison Community Schools	Williamston Community Schools
Hillsdale Community Schools	Windover High School
Hope Academy of West Michigan	Wolverine Community School District
Ironwood Area Schools of Gogebic County	