



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: December 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 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 Department's 9th quarterly report to the Legislature.

EARLY WARNING

Pursuant to 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 2 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 uses 2 methods to determine the existence of potential fiscal stress. First, a projection model 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 of all school districts, ISDs and PSAs scheduled to coincide with budget amendments in March, July, and October. The Department communicates with identified districts, ISDs, and PSAs before determining whether potential fiscal stress exists.

Pursuant to MCL §380.1219(5), if the State Treasurer declares that potential fiscal stress exists within a school district, ISD or PSA, then the governing body has 60 days to enter into a contract with an ISD or authorizer to perform an administrative review. 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 periodic Department reporting.

2016 POTENTIAL STRESS

In 2016, 19 districts and PSAs were declared to have potential fiscal stress. Eighteen districts were identified using the financial projection model, and 1 district was identified through budget reviews. As of this report:

- The following 14 districts improved their financial position and thereby are no longer subject to Department oversight:

As of September 1, 2017:

1. Manistique Area Schools
2. Adams Township School District
3. Delton Kellogg Schools
4. State Street Academy
5. Leslie Public Schools
6. North Star Academy

As of December 1, 2017:

1. Charlevoix Montessori Academy for the Arts
 2. Fenton Area Public Schools
 3. Mar Lee School District
 4. Mayville Community School District
 5. Montague Area Public Schools
 6. Muskegon Public Schools
 7. Weston Preparatory Academy
 8. Williamston Community Schools
- Grosse Ile Township Schools and Taylor International Academy incurred general fund deficits, placing them under Michigan Department of Education (MDE) oversight. Grosse Ile Township Schools has since eliminated its general fund deficit. Taylor International Academy has closed.
 - The following 3 districts remain subject to Department oversight:

2016	School District/PSA	Administrative Review ISD/Authorizer
1	Flat River Academy	Saginaw Valley State University
2	Kent City Community Schools	Kent Intermediate School District

2016	School District/PSA	Department Periodic Reporting ISD/Authorizer
3	Multicultural Academy	Bay Mills Community College

2017 POTENTIAL STRESS

In 2017, 8 districts were declared to have the potential for fiscal stress. Seven districts were identified using the financial projection model, and 1 district was identified through budget reviews. As of this report:

- Algonac Community School District and Coloma Community Schools improved their financial position and are no longer subject to Department oversight.
- Menominee Area Public Schools and Gwinn Area Community Schools incurred general fund deficits placing them under MDE oversight.
- Michigan Technical Academy was closed by its authorizer Central Michigan University.
- The remaining 3 districts continue to be subject to Department oversight:

2017	School District/PSA	Administrative Review ISD/Authorizer
1	Bay City Public Schools	Bay-Arenac Intermediate School District

2017	School District/PSA	Department Periodic Reporting ISD/Authorizer
2	Britton Deerfield Schools	Lenawee Intermediate School District
3	Ontonagon Area School District	Gogebic-Ontonagon Intermediate School District

PRELIMINARY REVIEW

Pursuant to 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 or are determined to be.

Eleven districts under MDE oversight became subject to the preliminary review process in 2016.

- A preliminary review was completed for the following 8 districts with the Emergency Loan Board (ELB) finding no probable financial stress.
 1. Beecher Community School District
 2. Bridgeport Spaulding Community School District
 3. Hazel Park City School District
 4. Mackinaw City Public Schools
 5. Mt. Clemens Community School District
 6. New Haven Community Schools
 7. Vanderbilt Area Schools
 8. Westwood Community Schools

- The following 3 districts eliminated their deficit as of June 30, 2016 and are thereby no longer subject to a preliminary review:
 1. Clintondale Community Schools
 2. Flint Community Schools
 3. Southgate Community School District

PENDING PRELIMINARY REVIEW

In 2017, MDE determined that Bay City Academy will not, as originally projected, eliminate its general fund deficit within 5 years of submitting its initial DEP. Consequently, on July 20, 2017 oversight of the PSA was transferred from MDE to Treasury. A preliminary review is expected during January 2017.

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to 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 of Treasury.

Eight school districts which have undergone the preliminary review process are also required to submit an EDEP for Department approval. In addition to providing an EDEP, these districts are required to provide, on a monthly basis, additional cash flow and budget-to-actual reporting.

- As of June 30, 2017, the following 2 school districts eliminated their general fund deficit and are no longer subject to EDEP reporting:
 1. Bridgeport Spaulding Community School District, \$510,122
 2. New Haven Community Schools, \$22,406
- The following table contains the 6 remaining school districts and the year each is expected to eliminate its deficit.

2017-18	School District/PSA	ISD or Authorizer	FY 2016-17 (Deficit)
1	Vanderbilt Area School	Cheboygan-Otsego-Presque Isle ESD	\$(50,519)
2	Westwood Community Schools	Wayne RESA	\$(371,345)
2018-19			
3	Mackinaw City Public Schools	Cheboygan-Otsego-Presque Isle ESD	\$(347,977)
2019-20			
4	Mt. Clemens Community School District	Macomb Intermediate School District	\$(708,073)
2020-21			
5	Hazel Park City School District	Oakland Schools	\$(5,632,331)
6	Beecher Community Schools	Genesee Intermediate School District	\$(1,126,536)

PA 436**Highland Park Schools**

Effective Date: January 15, 2014

Emergency Manager: Kevin A. Smith

- District completed the FY14-15, FY 15-16, and FY 16-17 audits.
- Audited financials allow the District and the Department to review options for transitioning to a form of local control.
- District owes: Unemployment Insurance Agency \$2M; ORS \$1M; Michigan Department of Education \$2.9M; Wayne RESA \$400K; DTE \$700K; and HPS Sinking Fund \$2.7M. This does not include bond or emergency loan debt service.
- District has reached repayment agreements with ORS, MDE, Wayne RESA and DTE. It is in negotiations with UIA.
- Emergency Manager's 18-month term ends in April 2018.

Pontiac Schools

Effective Date: September 18, 2013

Consent Agreement Consultant: Vacant

- District will refinance \$3.4M of the 2014 school building and site bonds and \$10.2M of the 2006 energy bonds in December 2017.
- District reduced its deficit by \$1.9M in FY 2016-17, leaving a deficit of \$23.1M.
- District is projected to eliminate its general fund deficit in 2023; and pay-off its emergency loans in 2036.
- Effective November 1, 2017, the position of Consent Agreement Consultant was eliminated.
- District and Department are reviewing Consent Agreement amendments to transition back to local control effective June 1, 2020, which is consistent with the termination date of MDE's Partnership Agreement.

Benton Harbor Schools

Effective Date: September 23, 2014

Consent Agreement Consultant: Vacant

- District hired the corporate investigative services of Rehmann to prepare a forensic accounting review of tax records and receipts, both within the Benton Harbor Schools and the City of Benton Harbor, to determine if tax receipts, due and owed by Berrien County property owners, were appropriately received, accounted for, and distributed from 2014 to the present. Rehmann concluded that the city inadvertently distributed \$655K worth of payments relating to the commercial rehabilitation tax to BHAS that should have been distributed to the Michigan Department of Treasury. The District is formulating a repayment plan.
- District general fund deficit declined from \$11.6M in 2016 to a projected \$8.6M in 2017.
- The District and the ISD, with the Department's approval, have agreed to transition the ISD-provided alternative services (Business, Human Resources, and Technology) to the District.
- Effective November 1, 2017, the position of Consent Agreement Consultant was eliminated.

- District and Department are reviewing Consent Agreement amendments to transition back to local control effective June 1, 2020, which is consistent with the termination date of MDE's Partnership Agreement.

Muskegon Heights Public Schools

Effective Date: August 8, 2012

RTAB: Established October 28, 2016

- The District is currently seeking a fourth emergency loan note to cover outstanding liabilities which have interest rates that are untenable in the current financial situation
- A meeting of the Emergency Loan Board to approve the fourth emergency note is tentatively scheduled for mid-January 2018.
- District owes: UIA \$953,798.57; ORS \$1,510,976.99; MDE \$371,435.77; this does not include bond or emergency loan debt service.

CONTACT

Additional questions about this report should be directed to Edward B. Koryzno, Jr, Director of the Bureau of Local Government and School Services at KoryznoE@michigan.gov or (517) 373-4415.