



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RICK SNYDER  
GOVERNOR

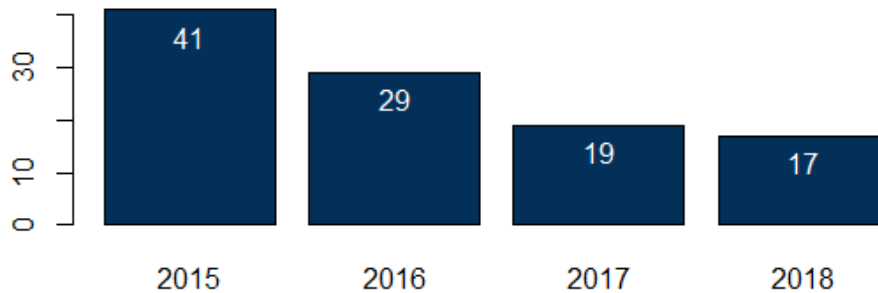
NICK A. KHOURI  
STATE TREASURER

**DATE:** December 1, 2018  
**TO:** House and Senate K-12 Appropriations Subcommittees  
**FROM:** Nick A. Khouri, State Treasurer  
**SUBJECT:** Quarterly Report to the Legislature on Deficit Districts Pursuant to MCL §380.1220(2)

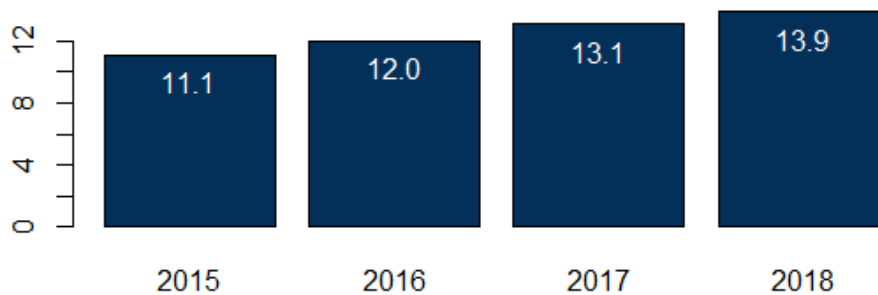
**EXECUTIVE SUMMARY**

Since early warning legislation was passed, the number of deficit districts has decreased 58.5% from 41 reported in December 2015 to 17 reported as of December 2018. Fund balances across Michigan are being restored with the median general fund balance as a percent of revenue increasing from 11.1% in 2015 to 13.9% in 2018.

**Deficit Districts by Year (December Report)**



**Median General Fund Balance as Percent of Revenue**



The Department has developed partnerships with school districts and organizations across the state to provide better resources and information. The Department has organized annual financial resource conferences since 2016, hosting an additional conference in 2017 for districts in the upper peninsula. A conference will be held March 2, 2019 specifically designed for boards of education.

Financial trends are also improving in the Departments projection model with the number of districts contacted for a corrective action plan decreasing 49.3% from 75 in the original model to 38 districts for FY 2018-19. The number of districts determined to have potential fiscal stress has decreased 52.6% from 19 in 2016 to 9 districts as of this report.

<b>Projection Model</b>			
<b>Fiscal Year</b>	<b>Requested Corrective Action Plan</b>	<b>Declared Potential Fiscal Stress</b>	<b>Remaining Districts</b>
2015-16	75	18	3
2016-17	50	7	2
2017-18	51	7	4
2018-19	38	Pending	Pending

<b>Budget Review</b>			
<b>Fiscal Year</b>	<b>Requested Corrective Action Plan</b>	<b>Declared Potential Fiscal Stress</b>	<b>Remaining Districts</b>
2015-16	30	1	0
2016-17	26	1	0
2017-18	4	0	0
2018-19	24	Pending	Pending

### **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, intermediate school district (ISD) or public school academy (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 making a final determination of 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 Department periodic 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, 3 districts remain subject to Department oversight:

2016	School District/PSA	Administrative Review ISD/Authorizer (Management Co.)
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)
2	Kent City Community Schools	Kent Intermediate School District

2016	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)
3	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)

### 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, 2 districts remain subject to Department oversight:

2017	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)
2	Britton Deerfield Schools	Lenawee Intermediate School District
3	Ontonagon Area School District	Gogebic-Ontonagon Intermediate School District

### 2018 POTENTIAL STRESS

In 2018, 7 districts were declared to have the potential for fiscal stress after being identified by the financial projection model. Since the previous report, Macomb Academy incurred a deficit and 4 districts remain subject to Department oversight:

2018	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)
1	Detroit Community Schools (PSA)	Bay Mills Community College (Self-Managed)
2	Midland Academy of Advanced and Creative Studies	Central Michigan University (Midland Charter Initiative)
3	Saranac Community Schools	Ionia Intermediate School District
4	Watersmeet Township School District*	Gogebic-Ontonagon Intermediate School District

\*Watersmeet Township School District has a general fund balance greater than 5% for each of the two previous fiscal years and will thereby not be required to submit periodic reports as subject to MCL 380.1219(7)(d).

## **2019 POTENTIAL STRESS**

For FY 2018-19, the Department has requested corrective action plans from 24 districts based on reviews of their original adopted budgets. The department has contacted 37 additional districts (1 overlapping) identified by our financial projection model based on preliminary FID data. The Department will review the corrective action plans and follow up with individual districts before determining whether potential fiscal stress exists.

## **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 deficit elimination plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

In 2018, preliminary reviews were completed for South Lake Schools and Detroit Public Safety Academy. The Emergency Financial Assistance Loan Board (ELB) met October 29, 2018 finding no probable fiscal stress exists. As a result, the two districts will be subject to EDEP oversight.

## **ENHANCED DEFICIT ELIMINATION PLANS**

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA currently operating under a DEP that has not eliminated its deficit within 5 years after the initial DEP was submitted to MDE is required to submit an enhanced DEP (EDEP) to the Department of Treasury. A school district, ISD, or PSA may also be required to submit an EDEP if they are determined to be subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress.

These districts are required to submit an EDEP for Department approval. In addition to providing an EDEP, these districts must provide additional cash flow and budget-to-actual reporting monthly in a form and manner approved by the Department.

The financial emergency for Benton Harbor Area Schools and Pontiac City School District has been resolved and the districts are no longer subject to Consent Agreements. Pursuant to MCL §380.1220(5) the districts remain subject to monthly EDEP reporting as their remaining deficits are eliminated.

Since 2015, 17 districts have been subject to a preliminary review or EDEP reporting. Seven of these districts have eliminated their general fund deficits and are no longer subject to Department oversight (2 districts in FY 2017-18). The 10 remaining EDEP districts are as follows:

<b>EDEP</b>	<b>School District/PSA</b>	<b>ISD or Authorizer (Management Co.)</b>	<b>FY 2017-18 Audit</b>
1	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	\$(92,145)

<b>EDEP</b>	<b>School District/PSA</b>	<b>ISD or Authorizer (Management Co.)</b>	<b>FY 2017-18 Audit</b>
2	Mt. Clemens Community School District	Macomb Intermediate School District	\$(128,172)
3	Gwinn Area Community Schools	Marquette-Alger RESA	\$(238,617)
4	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	\$(543,862)
5	Beecher Community Schools	Genesee Intermediate School District	\$(672,189)
6	Bay City Academy	Lake Superior State University (Mitten Educational Management, LLC)	\$(1,165,058)
7	South Lake Schools	Macomb Intermediate School District	\$(1,261,820)
8	Hazel Park City School District	Oakland Schools	\$(4,148,964)
9	Benton Harbor Area Schools	Berrien Regional Education Service Agency	\$(4,425,383)
10	Pontiac City School District	Oakland Schools	\$(6,684,485)

### **PA 436**

#### **RELEASED FROM CONSENT AGREEMENT**

##### **Pontiac City School District**

Effective Date: September 18, 2013

- Pontiac was released from the Consent Agreement effective October 12, 2018.
- The District remains subject to the requirements of its emergency loan agreements.

##### **Benton Harbor Area Schools**

Effective Date: September 23, 2014

- Benton Harbor was released from the Consent Agreement effective November 7, 2018.
- The District remains subject to the requirements of its emergency loan agreements.

#### **RECEIVERSHIP TRANSITION ADVISORY BOARD**

##### **Muskegon Heights Public Schools**

Effective Date: August 8, 2012

RTAB: Established October 28, 2016

- Deficit eliminated as of June 30, 2018; budget for FY 2018-19 estimates an ending general fund balance of \$158,155.
- Outstanding long-term obligations include \$14M in four emergency loans, \$20M in bonded debt, and \$2M due to School Bond Loan and School Loan Revolving Funds.

**BACKGROUND**

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, ISDs, and 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 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 13th quarterly report to the Legislature.

**CONTACT**

Additional questions about this report should be directed to Shelbi Frayer, Executive Director of the Office of School Review and Fiscal Accountability at FrayerS2@michigan.gov (517) 335-2521.