



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: September 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

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 12th 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 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
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, 3 districts remain 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

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, New Beginnings Academy and Success Mile Academy have closed and 5 districts remain subject to Department oversight:

2018	School District/PSA	Department Periodic Reporting ISD/Authorizer
1	Detroit Community Schools (PSA)	Bay Mills Community College
2	Macomb Academy	Central Michigan University
3	Midland Academy of Advanced and Creative Studies	Central Michigan University
4	Saranac Community Schools	Ionia Intermediate School District
5	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).

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.

Since 2016, preliminary reviews have been provided for the 9 districts with the Emergency Loan Board (ELB) finding no probable financial stress:

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 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.

Since 2015, 13 districts have been subject to a preliminary review or EDEP reporting. Five of these districts have eliminated their general fund deficits and are no longer subject to Department oversight (3 districts in FY 2015-16, and 2 districts in FY 2016-17). The 8 remaining EDEP districts along with the year each is expected to eliminate their deficit are as follows:

2017-18	School District/PSA	ISD or Authorizer	FY 2017-18 Budget
1	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	\$6,712
2	Westwood Community Schools	Wayne RESA	\$355,613
2018-19			
3	Mackinaw City Public Schools	Cheboygan-Otsego-Presque Isle ESD	(\$15,230)
4	Mt. Clemens Community School District	Macomb Intermediate School District	(\$672,573)
2019-20			
6	Gwinn Area Community Schools	Marquette-Alger RESA	(\$367,912)
2021-22			
5	Beecher Community Schools	Genesee Intermediate School District	(\$809,548)
2023-24			
7	Bay City Academy	Lake Superior State University	(\$1,104,753)
2026-27			
8	Hazel Park City School District	Oakland Schools	(\$4,620,953)

PA 436

CONSENT AGREEMENT

Pontiac Schools

Effective Date: September 18, 2013

Consent Agreement Consultant: Vacant

- The District continues to meet benchmarks included in the DEP and meet repayment terms on loans.
- Treasury is in the early stages of determining the long-term needs of the district and how we can best serve them. Given that the Department of Education is providing support through the partnership agreement, Treasury's role may shift to more of a supportive role for MDE.

Benton Harbor Schools

Effective Date: September 23, 2014

Consent Agreement Consultant: Vacant

- The Board of Education volunteered (and ultimately contractually) gave up their powers as a board to an appointed CEO (by the Department of Education) on July 17, 2018. The new CEO/Superintendent, Dr. Bob Herrera came from South Haven Schools.
- The District is projecting to end FY 18 with an operating surplus of \$1.6M. The district continues to make progress on their deficit elimination plan.

RECEIVERSHIP TRANSITION ADVISORY BOARD**Muskegon Heights Public Schools**

Effective Date: August 8, 2012

RTAB: Established October 28, 2016

- The District closed a fourth emergency loan note on May 23, 2018 to cover outstanding liabilities with interest rates untenable in the current financial situation. The District owed the Unemployment Insurance Agency \$967,863, and the Office of Retirement Services \$1,528,919.
- The previous three emergency loan notes were also amended and restated to reflect more efficient timelines in tax capture.
- A surplus budget of over \$140,000 for FY 2018 was adopted by the District Board of Education and the RTAB at their June meetings. A budget calling for a \$128,000 surplus was adopted for FY 2019.

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.