



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

RACHAEL EUBANKS
STATE TREASURER

DATE: December 1, 2019
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)

Attached please find one copy of the Quarterly Report of Deficit School Districts.

The report is required by Public Act 111 of 2015, the Revised School Code Section 1220(2) provides as follows:

- (1) 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).
- (2) 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 first quarterly report for FY2019-2020 to the Legislature.

Additional questions about this report or other related questions for our Division should be directed to Jessica Thomas, Administrator of the School Review and Fiscal Accountability Division at ThomasJ45@michigan.gov or (517) 335-1215.

Attachments

Cc: Rachel Richards, 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

I. OVERVIEW

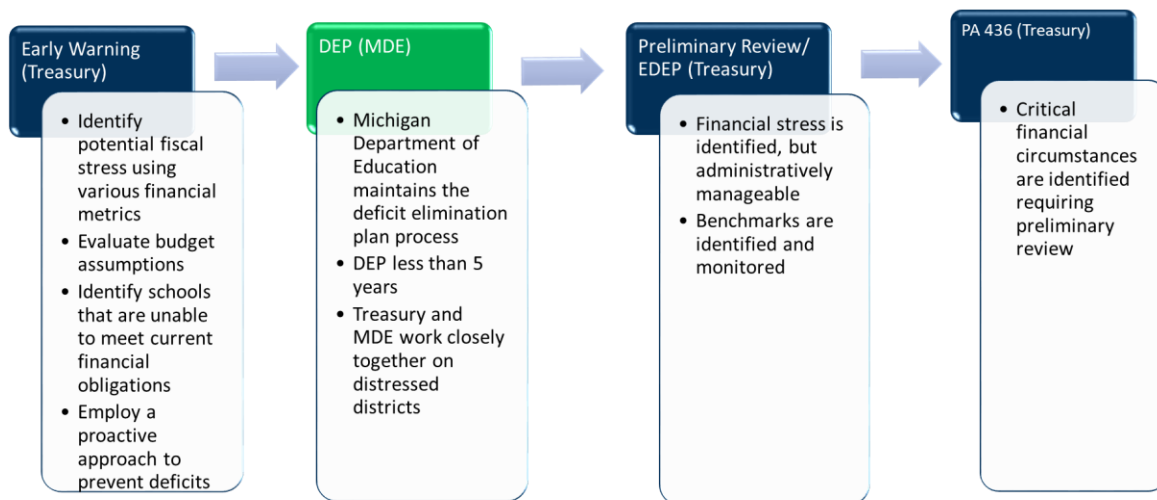
On July 7, 2015, the Governor signed into law public Acts 109-114, giving the Department of Treasury (the Department) additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs) facing fiscal distress. The School Review and Fiscal Accountability (SRFA) division within the Department of Treasury works closely with the Michigan Department of Education (MDE) throughout this process.

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.

II. DEPARTMENT OF TREASURY PROCESS

In collaboration with MDE, 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).

The process is defined in the following categories; Early Warning, Deficit Elimination Plan, Preliminary Review/Enhanced Deficit Elimination Plan, and Public Act 436. This report will highlight the process for Early Warning and Preliminary Review/Enhanced Deficit Elimination Plan for the Department of Treasury.



III. EARLY WARNING

Two methods are used to determine the existence of potential fiscal stress using the data collected as stated above; a projection model and a manual review of district budgets. Key factors under consideration for the projection model method are student enrollment, general fund revenues, general fund expenditures, and general fund balance. The budget review method primarily focuses on significant changes in the overall fund balance.

Once a district shows potential signs of fiscal distress, the Department engages in continued correspondence with identified districts, ISDs, and PSAs before making a final determination of whether potential fiscal stress exists. This may include face to face meetings with the District, a request for a “Corrective Action Plan,” further evaluation of the budget assumptions, and/or reaching out to district leadership for additional information when necessary.

TABLE 1: CURRENT EARLY WARNING DISTRICTS

	School District/PSA	Administrative Review (Management Co.)	Year Identified
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)	2016 Projection Model
2	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)	2016 Projection Model
3	Detroit Community Schools (PSA)	Bay Mills Community College (Self-Managed)	2018 Projection Model
4	Eau Claire Public Schools	Berrien ISD	2019 Projection Model
5	Forest Park School District	Dickinson-Iron ISD	2019 Budget Review
6	Beaverton Rural Schools	Clare-Gladwin RESA	2019 Budget Review
7	Clintondale Community Schools	Macomb ISD	2019 Budget Review
8	Bradford Academy ¹	Bay Mills Community College (Choice Schools Associates)	2019 Budget Review

TABLE 2: EARLY WARNING DISTRICT STATISTICS

District Status	FY 2016	FY 2017	FY 2018	FY 2019	Total
Total Number Declared	19	8	7	15	49
Total Remaining	2	0	1	5	8
Released from Oversight	15	5	3	6	29
Deficit Identified	2	2	1	3	8
District Closed	0	1	2	1	4

¹Bradford Academy was found to have potential fiscal stress as defined by statute. The Academy passed a deficit budget for the 2020 fiscal year and oversight transferred to Michigan Department of Education. The Academy passed an amended budget for the fiscal year, transferring oversight back to Michigan Department of Treasury on November 7, 2019.

²Fiscal Year 2020 Early Warning Districts are currently pending. As stated in the paragraph below, the Department has started reviewing current budgets and is building the projection model.

A. 2020 Potential Fiscal Stress

For FY 2019-20, the Department requested Corrective Action Plans from twenty-three (23) districts based on the review of the adopted budgets. Upon review, a determination of potential distress was not declared on twenty-one (21) of the twenty-three (23) districts. The Department remains in conversations with the remaining two (2) districts regarding their current financial situation.

In mid-December, the Department will contact additional districts identified by our financial projection model based on preliminary FY 2018-2019 FID data. The Department will review the Corrective Action Plans and follow up with individual districts before making a determination as to whether potential fiscal stress exists.

B. 2019 Potential Fiscal Stress

In addition to the fifteen (15) districts declared to have potential fiscal stress, the Department requested Corrective Action Plans from nine (9) districts based on reviews of their final adopted budgets. The Department reviewed the Corrective Action Plans and did not declare potential fiscal stress on eight (8) of the nine (9) districts. The Department is in conversations with the remaining one (1) district.

C. Districts Removed from Potential Fiscal Stress

Since the September 2019 Quarterly Report, the department reviewed the FY 2018-2019 audits and FY 2019-2020 budgets. A deficit is no longer projected to arise within the current or following two fiscal years for the following Districts. Since potential fiscal stress *does not* exist, the following districts have been released from the potential fiscal stress status and periodic reporting process.

TABLE 3: DISTRICTS REMOVED FROM POTENTIAL FISCAL STRESS

	School District/PSA	ISD or Authorizer (Management Co.)	Reason	Year Identified
1	Britton Deerfield Schools	Lenawee Intermediate School District	Improved	2017 Projection Model
2	Mio AuSable Schools	C.O.O.R. ISD	Improved	2019 Projection Model
3	Fitzgerald Public Schools	Macomb ISD	Improved	2019 Projection Model
4	Merrill Community Schools	Saginaw ISD	Improved	2019 Projection Model

IV. PRELIMINARY REVIEW/ENHANCED DEFICIT ELIMINATION PLAN (EDEP)

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA that has not eliminated its deficit within 5 years after the initial DEP 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. Like the early warning phase, Treasury obtains additional information from the district to make a formal determination of fiscal distress. 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.

Pursuant to MCL §380.1219(5), if the State Treasurer declares 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 as an alternative to Treasury oversight. An administrative review requires the contracted ISD or authorizer to provide a review and comparison of the district and applicable peers for financial practices, staffing, building capacity, transportation and other categories outlined in statute. 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 reporting to the Department.

TABLE 4: CURRENT EDEP DISTRICTS³

	School District/PSA	ISD or Authorizer (Management Co.)	2020 Oct. State Aid Enrollment	FY 2019 Audited GF Balance	FY 2020 Projected GF Balance
1	Vanderbilt Area Schools ¹	Cheboygan-Otsego-Presque Isle ESD	78.20	\$(90,632)	\$(275,420)
2	South Lake Schools	Macomb ISD	1661.07	\$(1,660,912)	\$(1,503,734)
3	Beecher Community Schools	Genesee Intermediate School District	743.07	\$(106,085)	\$42,496
4	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	280.29	\$(481,461)	\$(521,097)
5	Bay City Academy	Lake Superior State University (Mitten Educational Management,	389.10	\$(986,750)	\$(786,265)
6	Pinckney Community Schools ¹	Livingston ESA	2,589.06	\$(711,696)	\$(1,629,001) ²
7	Hazel Park City School District	Oakland Schools	3,214.63	\$(606,375)	\$770,990
8	Benton Harbor Area Schools	Berrien RESA	1,839.35	\$(3,774,778)	\$(4,399,954)
9	Pontiac City School District	Oakland Schools	4,132.26	\$(5,318,106)	\$(6,632,485)
10	Flint, School District of the City of ¹	Genesee ISD	4,223.47	\$(3,349,028)	\$(12,270,081)

¹The Department is currently reviewing the District’s recently submitted EDEP for approval

²Principal drivers of Pinckney’s increase in the deficit is consistently declining enrollment (averaging over 7% per year over the last five years), coupled with a step increase given to teachers for fiscal year 2019.

³Highland Park City Schools is eliminating its deficit through the capture of school operating taxes. Highland Park City Schools was converted to a PSA in FY 2012-13.

As of November 2019, eighteen (18) districts have been subject to a Preliminary Review or EDEP reporting. Of these eighteen (18) districts, nine (9) have eliminated their deficit and are no longer subject to Department oversight. The nine (9) remaining EDEP districts are presented above.

A. EDEP Districts Out of Deficit

Since the September 2019 Quarterly Report, the department reviewed the FY 2018-2019 financial statement audit. The following districts eliminated their general fund deficit. As a result, the districts are no longer subject to Treasury oversight pursuant MCL§380.1220(5).

TABLE 5: EDEP DISTRICTS OUT OF DEFICIT AS OF JUNE 30, 2019

EDEP	School District/PSA	ISD or Authorizer (Management Co.)	2020 Oct. State Aid Enrollment	FY 2019 General Fund Balance	FY 2020 Projected General Fund Balance
1	Mt. Clemens Community School District	Macomb ISD	1,049.38	\$823,729	\$983,106
2	Gwinn Area Community Schools	Marquette-Alger RESA	1,059.72	\$100,903	\$33,227

V. 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. The statute assists in providing remedial measures to address the financial emergency. 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 termination. As of this report date, one (1) district is subject an RTAB as detailed in Public Act 436 of 2012.

TABLE 6: CURRENT PUBLIC ACT 436 DISTRICTS

	School District/PSA	ISD or Authorizer (Management Co.)	FY 2019 General Fund Balance	FY 2020 Projected General Fund Balance
1	Muskegon Heights Public Schools	Muskegon Area ISD	\$280,114	\$377,235

State oversight began in August 2012 for Muskegon Heights Public Schools and its affairs will be monitored by the RTAB established October 2018 under Section 141.1563 of the statute. The District continues to meet its debt service obligations and is adhering to the final emergency manager orders.

- Deficit eliminated as of June 30, 2018; budget for FY 2019-20 estimates an ending general fund balance of \$377,235. The budget was approved at the June 19, 2019 RTAB meeting.
- Outstanding long-term obligations include \$13.8M in four emergency loans, \$18.3M in bonded debt, and \$3.6M due to the School Bond Loan Revolving Fund.