



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

GRETCHEN WHITMER
GOVERNOR

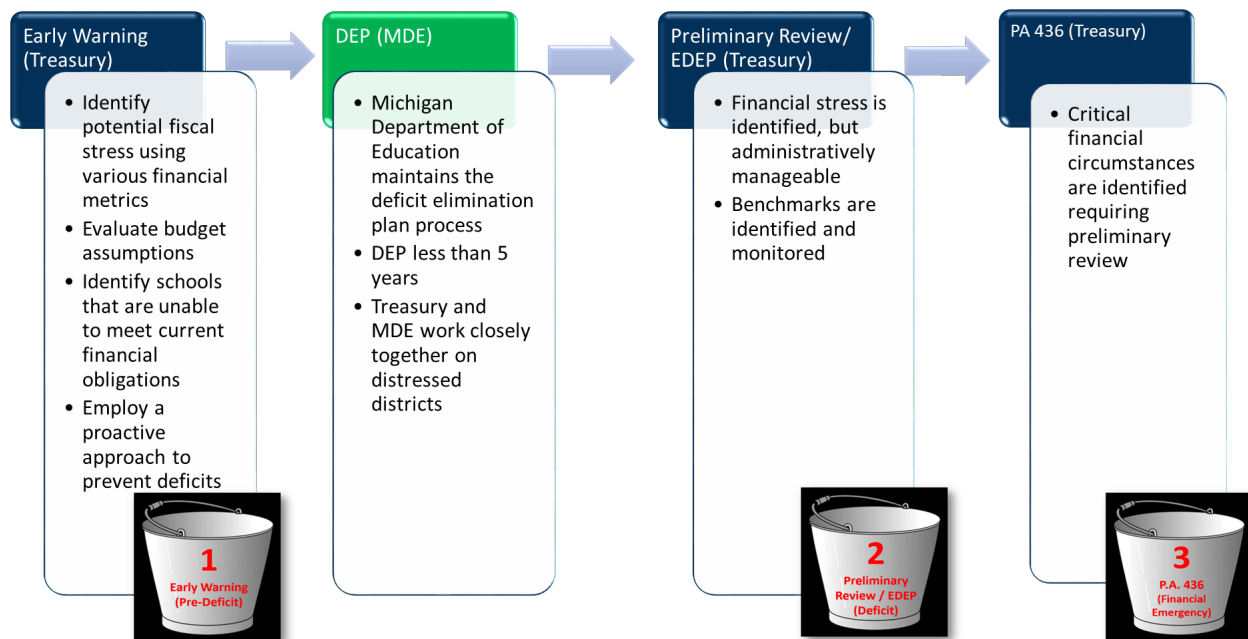
RACHAEL EUBANKS
STATE TREASURER

DATE: March 1, 2019
TO: House and Senate K-12 Appropriations Subcommittees
FROM: Rachael Eubanks, State Treasurer
SUBJECT: Quarterly Report to the Legislature on Deficit Districts Pursuant to MCL §380.1220(2)

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).

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 14th quarterly report to the Legislature. The joint role of the Department of Treasury and the Department of Education is shown below:



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, the Department pulls budget information from all ~900 district websites to track changes in revenue, expenditure, and identify decreases in fund balance greater than 50%. The Department has back and forth correspondence with identified districts, ISDs, and PSAs before making a final determination of whether potential fiscal stress exists. This includes requesting a corrective action plan, reviewing and evaluating the assumptions, and reaching out to district leadership for additional information where necessary.

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 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 Department periodic reporting.

2016 POTENTIAL STRESS

In our office's first year, 2016, 19 districts and PSAs were declared to have potential fiscal stress. 19 districts were identified using the financial projection model, and 1 district was identified through budget reviews. Out of the 19 districts, 15 have improved their finances and are no longer subject to early warning reporting, 2 incurred deficits, and 2 remain in potential fiscal stress:

| 2016 | School District/PSA | Administrative Review ISD/Authorizer (Management Co.) | Identified |
|-------------|----------------------------|---|---------------------|
| 1 | Flat River Academy | Saginaw Valley State University (Midwest Schools Services, Inc.) | Projection Model |

| 2016 | School District/PSA | Periodic Reporting ISD/Authorizer (Management Co.) | Identified |
|-------------|----------------------------|--|---------------------|
| 2 | Multicultural Academy | Bay Mills Community College (Universal Management Company, LLC) | Projection Model |

2017 POTENTIAL STRESS

In 2017, 8 districts were declared to have the potential for fiscal stress. 7 districts were identified using the financial projection model, and 1 district was identified through budget reviews. Out of the 8 districts, 4 have improved their finances and are no longer subject to early warning reporting, 2 incurred deficits, 1 closed, and 1 remains in potential fiscal stress:

| 2017 | School District/PSA | Periodic Reporting ISD/Authorizer (Management Co.) | Identified |
|------|---------------------------|--|------------------|
| 1 | Britton Deerfield Schools | Lenawee Intermediate School District | Projection Model |

2018 POTENTIAL STRESS

In 2018, 7 districts were declared to have the potential for fiscal stress after being identified by the financial projection model. Out of the 7 districts, 3 have improved and are no longer subject to early warning reporting, 1 incurred a deficit, 2 closed, and 1 remains in potential fiscal stress:

| 2018 | School District/PSA | Periodic Reporting ISD/Authorizer (Management Co.) | Identified |
|------|---------------------------------|--|------------------|
| 1 | Detroit Community Schools (PSA) | Bay Mills Community College (Self-Managed) | Projection Model |

2019 POTENTIAL STRESS

For 2019, the Department requested corrective action plans from 24 districts based on reviews of their original adopted budgets. The Department contacted 42 additional districts (1 overlapping) identified by our financial projection model based on data submitted to the Financial Information Database (FID).

As a result, 10* districts were declared to have the potential for fiscal stress. 5 districts were identified through budget reviews and 5 were identified by the projection model. The 10 districts have been notified of the declaration and have 60 days to contract with an IDS or authorizer for an administrative review or be subject to periodic reporting:

| 2019 | School District/PSA | ISD or Authorizer (Management Co.) | Identified |
|------|---------------------------------------|--|------------------|
| 1 | Eau Claire Public Schools | Berrien ISD | Projection Model |
| 2 | Mio-AuSable Schools | C.O.O.R. ISD | Projection Model |
| 3 | Chassell Township School District | Copper Country ISD | Budget Review |
| 4 | Dollar Bay-Tamarack City Area Schools | Copper Country ISD | Budget Review |
| 5 | Southwest Detroit Community School | Grand Valley State University (EAS Schools, Inc) | Budget Review |
| 6 | Berlin Township S/D #3 (Coon School) | Ionia ISD | Budget Review |

| 2019 | School District/PSA | ISD or Authorizer (Management Co.) | Identified |
|------|---|------------------------------------|------------------|
| 7 | Easton Township S/D #6 (Haynor School) | Ionia ISD | Budget Review |
| 8 | Ionia Township S/D #2 (North LeValley School) | Ionia ISD | Projection Model |
| 9 | Fitzgerald Public Schools | Macomb ISD | Projection Model |
| 10 | Merrill Community Schools | Saginaw ISD | Projection Model |

*The School District of the City of Flint was also identified by the projection model. The Department is in the process of reviewing the district’s corrective action plan including their proposed budget amendment and will determine whether potential fiscal stress exists.

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA currently operating under a deficit elimination plan (DEP) that has not eliminated its deficit within 5 years after the initial DEP was submitted to the Michigan Department of Education (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.

Since 2015, 18* districts have been subject to a preliminary review or EDEP reporting. Of these 18 districts, 7 have eliminated their deficit and are no longer subject to Department oversight. The 11 remaining EDEP districts are as follows:

| EDEP | School District/PSA | ISD or Authorizer (Management Co.) | 2018 State Aid Enrollment | FY 2018 Audited Balance | FY 2019 Projected Balance |
|------|---------------------------------------|---|---------------------------|-------------------------|---------------------------|
| 1 | Mt. Clemens Community School District | Macomb ISD | 1,063.87 | \$(128,172) | \$581,128 |
| 2 | Gwinn Area Community Schools | Marquette-Alger RESA | 1,066.62 | \$(238,617) | \$30,408 |
| 3 | Vanderbilt Area Schools | Cheboygan-Otsego-Presque Isle ESD | 96.66 | \$(92,145) | \$3,058 |
| 4 | South Lake Schools | Macomb ISD | 1,756.93 | \$(1,261,820) | \$(414,732) |
| 5 | Beecher Community Schools | Genesee Intermediate School District | 798.11 | \$(672,189) | \$(465,995) |
| 6 | Detroit Public Safety Academy | Eastern Michigan University (The Leona Group) | 333.39 | \$(543,862) | \$(515,149) |

| EDEP | School District/PSA | ISD or Authorizer (Management Co.) | 2018 State Aid Enrollment | FY 2018 Audited Balance | FY 2019 Projected Balance |
|-------------|---------------------------------|---|----------------------------------|--------------------------------|----------------------------------|
| 7 | Bay City Academy | Lake Superior State University (Mitten Educational Management, LLC) | 324.75 | \$(1,165,058) | \$(889,981) |
| 8 | Pinckney Community Schools | Livingston ESA | 2,780.60 | \$(166,611) | \$(1,086,620) |
| 9 | Hazel Park City School District | Oakland Schools | 3,458.59 | \$(4,148,964) | \$(4,176,433) |
| 10 | Benton Harbor Area Schools | Berrien RESA | 2,137.78 | \$(4,425,383) | \$(4,634,154) |
| 11 | Pontiac City School District | Oakland Schools | 4,220.68 | \$(6,684,485) | \$(6,662,485) |

*Highland 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.

PA 436

RECEIVERSHIP TRANSITION ADVISORY BOARD

Muskegon Heights Public Schools

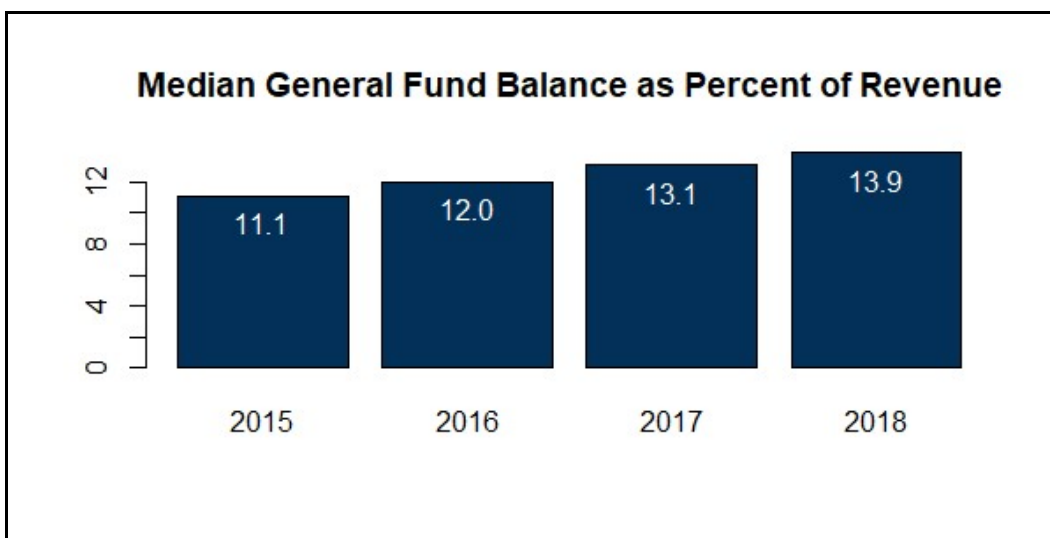
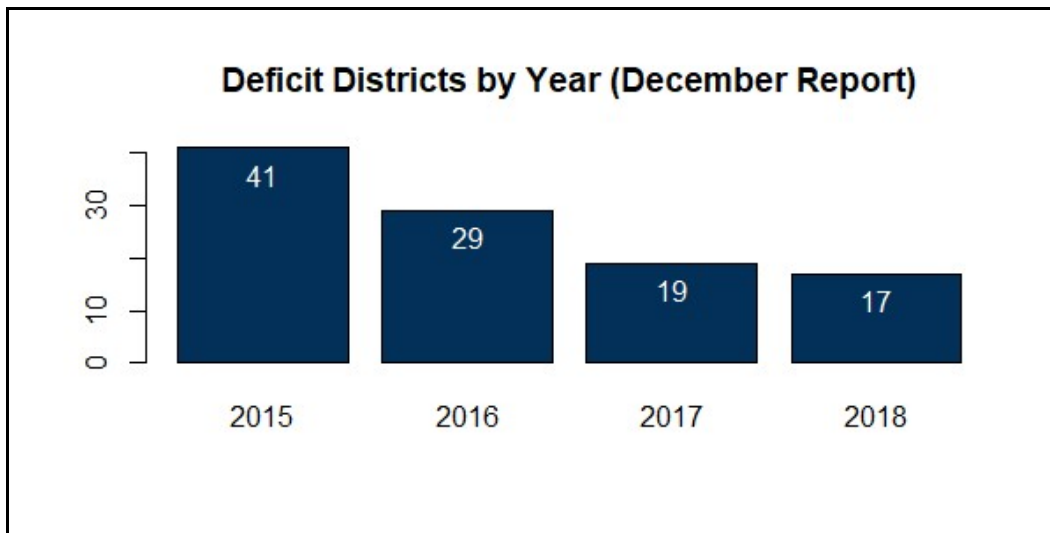
Effective Date: August 8, 2012

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 the School Bond Loan Revolving Fund.

OUTCOMES

Since the 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.



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. Our goal is to provide resources to increase the financial literacy of school leaders across the state.

Financial trends are also improving in the Departments projection model with the number of districts contacted for a corrective action plan decreasing 42.6% from 75 in the original model to 38 districts for FY 2018-19.

| Projection Model | | | |
|------------------|----------------------------------|----------------------------------|---------------------|
| Fiscal Year | Requested Corrective Action Plan | Declared Potential Fiscal Stress | Remaining Districts |
| 2015-16 | 75 | 18 | 2 |
| 2016-17 | 50 | 7 | 1 |
| 2017-18 | 51 | 7 | 1 |

| Projection Model | | | |
|-------------------------|---|---|----------------------------|
| Fiscal Year | Requested Corrective Action Plan | Declared Potential Fiscal Stress | Remaining Districts |
| 2018-19 | 43 | 5 | 5 |

| Budget Review | | | |
|----------------------|---|---|----------------------------|
| Fiscal Year | Requested Corrective Action Plan | Declared Potential Fiscal Stress | Remaining Districts |
| 2015-16 | 30 | 1 | 0 |
| 2016-17 | 26 | 1 | 0 |
| 2017-18 | 4 | 0 | 0 |
| 2018-19 | 24 | 5 | 5 |

CONTACT

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