



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RICK SNYDER
GOVERNOR

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STATE TREASURER

DATE: September 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 Section 1220(2) of 2015 PA 111 (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 eighth quarterly report to the Legislature.

EARLY WARNING

Pursuant to Section 1219(3) of 2015 PA 109 (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 two (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 two (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 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 or not potential fiscal stress exists.

Pursuant to Section 1219(5) of 2015 PA 109 (MCL §380.1219(5)), if the State Treasurer declares that potential fiscal stress exists within a school district 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 one district was identified through budget reviews. As of September 1, 2017:

- The following 6 districts improved their financial position and thereby are no longer subject to oversight to Department oversight:
 - Adams Township School District
 - Delton Kellogg Schools
 - Leslie Public Schools
 - Manistique Area Schools
 - North Star Academy
 - State Street Academy

- Grosse Ile Township Schools and Taylor International Academy incurred general fund deficits, placing them under Michigan Department of Education (MDE) oversight.

- The following 11 districts continue to be subject to Department oversight:

2016	School District/PSA	ISD Administrative Review/Authorizer
1	Charlevoix Montessori Academy for the Arts	Saginaw Valley State University
2	Fenton Area Public Schools	Genesee Intermediate School District
3	Flat River Academy	Saginaw Valley State University
4	Muskegon Public Schools	Muskegon Area Intermediate School District
5	Kent City Community Schools	Kent Intermediate School District
6	Mayville Community School District	Tuscola Intermediate School District
7	Montague Area Public Schools	Muskegon Area Intermediate School District

2016	School District/PSA	Department Periodic Reporting ISD/Authorizer
8	Mar Lee School District	Calhoun Intermediate School District
9	Multicultural Academy	Bay Mills Community College
10	Weston Preparatory Academy	Oakland University
11	Williamston Community Schools	Ingham Intermediate School District

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 one district was identified through budget reviews. As of September 1, 2017:

- Coloma Community Schools improved its financial position and thereby is no longer subject to Department oversight.
- Menominee Area Public Schools incurred a general funds deficit placing the district under MDE oversight.
- Michigan Technical Academy was closed by its authorizer Central Michigan University.
- The remaining five districts continue to be subject to Department oversight:

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

2017	School District/PSA	Department Periodic Reporting ISD/Authorizer
2	Algonac Community School District	St. Clair County RESA
3	Britton Deerfield Schools	Lenawee Intermediate School District
4	Gwinn Area Community Schools	Marquette-Alger RESA
5	Ontonagon Area School District	Gogebic-Ontonagon Intermediate School District

PRELIMINARY REVIEW

Pursuant to Section 4(2) of 2015 PA 110 (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.

As of September 1, 2017 the following 8 schools were subject to the preliminary review process with the Emergency Loan Board (ELB) finding no probable financial stress.

- Beecher Community School District
- Bridgeport Spaulding Community School District
- Hazel Park City School District
- Mackinaw City Public Schools
- Mt. Clemens Community School District
- New Haven Community Schools
- Vanderbilt Area Schools
- Westwood Community Schools

As of June 30, 2016, the following 3 districts eliminated their deficit and are thereby no longer subject to a preliminary review:

- Clintondale Community Schools
- Flint Community Schools
- 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 January 2018.

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to Section 1220(5) of 2015 PA 111 (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 have undergone the preliminary review process. These districts 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. The 8 schools and the year each is expected to eliminate its deficit are as follows:

2016-17	School District/PSA	ISD or Authorizer	Projected (Deficit)/Surplus
1	Bridgeport Spaulding Community School District	Saginaw Intermediate School District	\$6,634
2017-18			
2	New Haven Community Schools	Macomb Intermediate School District	\$(180,600)
3	Vanderbilt Area School	Cheb-Otsego-Presque Isle ESD	\$(10,997)
4	Westwood Community Schools	Wayne RESA	\$(880,038)
2018-19			
5	Mackinaw City Public Schools	Cheb-Otsego-Presque Isle ESD	\$(373,817)
2019-20			
6	Hazel Park City School District	Oakland Schools	\$(4,358,388)
7	Mt. Clemens Community School District	Macomb Intermediate School District	\$(1,618,174)
2020-21			
8	Beecher Community Schools	Genesee Intermediate School District	\$(1,396,240)

As of September 1, 2017 Bridgeport Spaulding Community School District is projected to be out of deficit. EDEP districts remain under Department oversight until audited financial statements demonstrate a fund balance surplus.

PA 436

Currently, the following school districts are subject to Department oversight pursuant to 2012 PA 436 (MCL §141.1541-75):

Count	School District	Current Status
1	Benton Harbor Area Schools	Consent Agreement
2	Highland Park City Schools	Emergency Manager
3	Muskegon Heights School District	Receivership Transition Advisory Board
4	Pontiac City School District	Consent Agreement

CONTACT

Additional questions about this report should be directed to Shelbi Frayer, Community Engagement and Finance Division, at Frayers1@michigan.gov or (517) 373-3269.