



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

BRIAN J. WHISTON
STATE SUPERINTENDENT

MEMORANDUM

DATE: September 18, 2017
TO: House and Senate K-12 Appropriations Subcommittees
FROM: Brian Whiston, State Superintendent
SUBJECT: Quarterly Report to the Legislature on Deficit Districts

OVERVIEW

Pursuant to language in Section 1220(2)(a) of the of the Revised School Code (MCL 380.1220), the Michigan Department of Education is required to report quarterly to the Legislature on schools incurring year-end deficits and the progress in reducing those deficits. In this fourth quarterly report for FY 2016-2017, an analysis of the projected FY 2016-2017 financial data has been completed for those schools that ended FY 2015-2016 with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans (DEPs) and required monthly budget control reports. It should be noted that since 1976, the Department has provided the Legislature with an annual report on schools in deficit.

Note: This report was prepared with data as of August 31, 2017.

Section 1220(2)(a) of the Revised School Code (PA 451 of 1976, as amended) states:

"Not later than March 1 of each year, the department shall prepare a report of deficits incurred or projected by school districts, intermediate school districts, and public school academies in the immediately preceding fiscal year and the progress made in reducing those deficits and submit the report to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director. The department also shall submit quarterly interim reports concerning the progress made by school districts, intermediate school districts, and public school academies in reducing those deficits to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director. On a quarterly basis, the

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superintendent of public instruction shall publicly present those reports to the appropriations subcommittees of the legislature responsible for K-12 school aid appropriations."

The following narrative provides information regarding the deficit district process. The attached analysis provides specific information about existing deficit districts.

MICHIGAN DEPARTMENT OF EDUCATION PROCESS

Under Governor Snyder's Good Government initiative, the Department has included the following financial metric on its Scorecard related to DEPs: "Percent of DEPs reviewed within 30 days of receipt from districts." The Department continues to achieve 100% on this metric. Deficit district requirements and contact information may be found on the [Department's website](#).

Section 1220 of the Revised School Code requires school districts, intermediate school districts, and public school academies with a deficit fund balance to submit a DEP to the Department. We have a formal process in place to ensure that districts develop and implement DEPs to eliminate their deficits. This process may include requiring district representatives (e.g., administrators, local board of education members, and union representatives) to attend a meeting(s) in Lansing to discuss requirements in the law, status of their financial situation, possible modifications to their DEP, and answer questions. The purpose of these meetings is to ensure the district's key representatives understand what their responsibilities are in current law. The Department stresses that because Michigan is a locally controlled state, school officials must make the difficult decisions that will eliminate the deficit. We also include Department of Treasury (Treasury) staff in these meetings to discuss how processes within Treasury regarding the State Aid Note Borrowing Program and the Emergency Loan Program relate to and affect a district's deficit status. School representatives need to understand that borrowing through Treasury for cash flow purposes does not negate the need to reduce expenditures to eliminate the deficit. The Department invites the Office of Retirement Systems to these meetings, should there be an issue with MPSERS payments. The Department of Licensing and Regulatory Affairs is also invited, should the district have reimbursement issues related to Unemployment Insurance.

REQUIREMENTS IN LAW

Sec. 1220(1) of the Revised School Code [MCL 380.1220(1)] states:

"A school district, intermediate school district, or public school academy shall not adopt or operate under a deficit budget, and a school district, intermediate school district, or public school academy shall not incur an operating deficit in a fund during a school fiscal year. If a school district, intermediate school district, or public school academy has an existing deficit fund balance, incurs a deficit fund balance in the most recently completed school fiscal year, or adopts a current year budget that projects a deficit fund balance, all of the following apply:

(a) The school district, intermediate school district, or public school academy shall notify the superintendent of public instruction and the state treasurer immediately upon the occurrence of the circumstance. A school district shall provide a copy of the notice under this subdivision to the intermediate superintendent of the intermediate

school district in which the school district is located. A public school academy shall provide a copy of the notice under this subdivision to the authorizing body of the public school academy.

(b) Within 30 days after making notification under subdivision (a), the school district, intermediate school district, or public school academy shall submit to the superintendent of public instruction in the form and manner prescribed by the department an amended budget for the current school fiscal year and a deficit elimination plan approved by the board of the school district, intermediate school district, or public school academy, with a copy to the state treasurer. A school district shall transmit a copy of the amended budget and the deficit elimination plan to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall transmit a copy of the amended budget and the deficit elimination plan to its authorizing body.

(c) The department may withhold and release some or all of the money payable to the school district, intermediate school district, or public school academy as provided under section 102(1) of the state school aid act of 1979, MCL 388.1702.

(d) The superintendent of public instruction may require a deficit elimination plan to include an academic plan for the school district, intermediate school district, or public school academy.

(e) After the superintendent of public instruction approves a school district's, intermediate school district's, or public school academy's deficit elimination plan, the school district, intermediate school district, or public school academy shall post the deficit elimination plan on the school district's, intermediate school district's, or public school academy's website."

The Uniform Budgeting and Accounting Act places the burden for eliminating a deficit on the local board of education.

- *MCL 141.436(7) - "Except as otherwise permitted by Section 102 of the State School Aid Act, 1979 PA 94, MCL 388.1702, or by other law, the legislative body shall not adopt a general appropriations act or an amendment to that act which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus and the proceeds from bonds or other obligations issued under the Fiscal Stabilization Act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations."*
- *MCL 141.437(2) - "If, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the Fiscal Stabilization Act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, the chief administrative officer or fiscal officer shall present to the legislative body*

recommendations which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year. The recommendations shall include proposals for reducing appropriations from the fund for budgetary centers in a manner that would cause the total of appropriations to not be greater than the total of revised estimated revenues of the fund, or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. The recommendations shall recognize the requirements of state law and the provisions of collective bargaining agreements."

- *MCL 141.438(3) – "Except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."*

MICHIGAN DEPARTMENT OF EDUCATION REQUIREMENTS

Penalties in law (see the statutory language below) that may be imposed on deficit districts: (1) withholding state school aid [MCL 388.1702(1)]; and (2) reporting a violation to the Attorney General who will review the report and determine whether or not to act [MCL 388.1761].

- *MCL 388.1702(1) – "If a district or intermediate district is required to submit a deficit elimination plan under section 1220 of the revised school code, MCL 380.1220, and the district or intermediate district fails to submit a deficit elimination plan or the deficit elimination plan is not approved, the department may withhold some or all of the money payable to the district or intermediate district under this article, in an amount the department determines necessary to incentivize the district or intermediate district to eliminate the deficit, until the district or intermediate district submits to the department for approval an amended budget for the current school fiscal year and a deficit elimination plan in the form and manner prescribed by the department or until the deficit elimination plan is approved by the department, as determined by the department."*
- *MCL 388.1761 – "A school official or member of a board or other person who neglects or refuses to do or perform an act required by this act or who violates or knowingly permits or consents to the violation of this act is guilty of a misdemeanor, punishable by imprisonment for not more than 90 days, or a fine of not more than \$1,500, or both."*

As State Superintendent, I have not asked for the Attorney General's involvement regarding deficit districts.

EARLY WARNING LEGISLATION

Legislation to address schools that trigger indicators of potential financial stress was signed into law by Governor Snyder on July 7, 2015. It expands the role of the Department of Treasury, including oversight of schools that have been in deficit or project to be in deficit for more than five years. Of the 25 operating districts that were in deficit at June 30, 2016, 14 fall under Treasury's oversight:

- Bay City Academy
- Beecher Community School District
- Benton Harbor Area Schools
- Bridgeport Spaulding Community School District
- Detroit City School District (Old Co.)
- Hazel Park City School District
- Highland Park City Schools
- Mackinaw City Public Schools
- Mt. Clemens Community School District
- Muskegon Heights School District
- New Haven Community Schools
- Pontiac City School District
- Vanderbilt Area Schools
- Westwood Community Schools

DEFICIT SCHOOL DATA

Attachments A and B provide the financial analysis for fiscal year 2016-17.

Questions about this report should be directed to Phil Boone, Office of State Aid and School Finance, at BooneP2@michigan.gov or 517-335-4059.

Attachments

**DEFICIT DISTRICT QUARTERLY REPORT
TO THE HOUSE AND SENATE K-12 APPROPRIATIONS SUBCOMMITTEES**

**FINANCIAL ANALYSIS OF MICHIGAN DEFICIT SCHOOL DISTRICTS
PROJECTED 2016-2017**

An analysis of the projected fiscal year 2016-2017 (FY 2017) financial data has been completed for those districts that ended fiscal year 2015-2016 (FY 2016) with a deficit. The analysis is conducted using data collected from Deficit Elimination Plans, periodic reporting, and school district budgets.

There were 29 school districts that ended FY 2016 in a deficit position. Since then, four school districts have closed. Experiencia Preparatory Academy closed at the end of FY 2016 and Albion Public Schools annexed with another district at the start of FY 2017. Taylor International Academy and Blanche Kelso Bruce Academy closed at the end of FY 2017.

Of the 25 operating schools that ended FY 2016 in deficit:

- 8 schools are projecting to eliminate their deficit in FY 2017
 - Attachment B, Category 1
- 10 schools are projecting to reduce their deficit in FY 2017
 - Attachment B, Category 2
- 4 schools are projecting to increase their deficit in FY 2017
 - Attachment B, Category 3
- 3 schools are eliminating their deficits with school operating taxes
 - Attachment B, Category 5

Posen Consolidated School District No. 9 had projected to reduce its deficit, but now projects to eliminate its deficit in FY 2017. Iron Mountain Public Schools had projected to reduce its deficit, but now projects to increase its deficit in FY 2017. New Haven Community Schools had projected to eliminate its deficit, but now projects to increase its deficit in FY 2017.

Detroit Public Schools, Muskegon Heights School District, and Highland Park City Schools ended FY 2016 in deficit (Attachment B, Category 5). Their deficits are being eliminated through the capture of school operating taxes. Detroit Public Schools Community District replaced Detroit Public Schools at the beginning of FY 2017. The original Detroit Public Schools exists to pay off its accumulated deficit, while the new Detroit Public Schools Community District provides educational services. Muskegon Heights School District and Highland Park City Schools were converted to public school academy systems in FY 2013.

Final operating results for FY 2017 will be presented in the December 2017 quarterly report, after districts submit their audits due to the Department by November 1.

CATEGORY 1

Schools projecting to eliminate their deficit at June 30, 2017.

School Name	June 2015 Fund Balance	June 2016 Fund Balance	Projected June 2017 Fund Balance	Projected 2017 GF Revenues	% Fund Balance is of Revenues
Bridgeport Spaulding Community School District	(\$1,692,848)	(\$506,666)	\$6,634	\$16,012,131	0.04%
Cheboygan Area Schools	(\$382,004)	(\$103,283)	\$678,506	\$17,720,746	3.83%
Dearborn Heights School District 7	(\$1,252,341)	(\$705,615)	\$281,146	\$26,023,378	1.08%
Garden City Public Schools	(\$3,160,516)	(\$581,639)	\$1,330,784	\$45,167,062	2.95%
Grosse Ile Township Schools	\$187,441	(\$152,299)	\$616,173	\$20,626,813	2.99%
Pinckney Community Schools	(\$1,464,141)	(\$691,231)	\$131,288	\$28,790,539	0.46%
Posen Consolidated School District No. 9	(\$49,041)	(\$65,006)	\$9,446	\$2,232,880	0.42%
Sarah J. Webber Media Arts Academy	(\$36,052)	(\$52,189)	\$4,825	\$2,256,147	0.21%

CATEGORY 2

Schools starting FY 2017 in deficit that project to end the year with a reduced deficit.

School Name	June 2015 Fund Balance	June 2016 Fund Balance	Projected June 2017 Fund Balance	Projected 2017 GF Revenues	% Deficit is of Revenues
Beecher Community School District	(\$1,822,400)	(\$1,932,459)	(\$1,396,240)	\$12,966,441	-10.77%
Benton Harbor Area Schools	(\$14,752,759)	(\$11,675,305)	(\$8,925,303)	\$35,350,000	-25.25%
Detroit Public Safety Academy	(\$763,191)	(\$714,854)	(\$672,972)	\$2,915,353	-23.08%
Hazel Park City School District	(\$8,018,036)	(\$5,961,520)	(\$4,358,388)	\$37,810,041	-11.53%
Mackinaw City Public Schools	(\$588,173)	(\$507,379)	(\$373,817)	\$2,442,223	-15.31%
Mt. Clemens Community School District	(\$1,300,205)	(\$2,168,202)	(\$1,618,174)	\$14,172,804	-11.42%
Pontiac City School District	(\$33,399,710)	(\$25,085,066)	(\$23,361,466)	\$66,412,300	-35.18%
South Lake Schools	(\$1,131,425)	(\$1,296,368)	(\$1,167,258)	\$19,996,232	-5.84%
Vanderbilt Area Schools	(\$137,361)	(\$55,429)	(\$10,997)	\$1,339,199	-0.82%
Westwood Community Schools	(\$2,911,117)	(\$1,730,216)	(\$880,038)	\$23,166,856	-3.80%

CATEGORY 3

Schools starting FY 2017 in deficit that project to end the year with a greater deficit.

School Name	June 2015 Fund Balance	June 2016 Fund Balance	Projected June 2017 Fund Balance	Projected 2017 GF Revenues	% Deficit is of Revenues
Bay City Academy	(\$1,359,477)	(\$1,155,456)	(\$1,260,373)	\$3,067,603	-41.09%
Frederick Douglass International Academy	\$0	(\$84,119)	(\$137,806)	\$1,730,237	-7.96%
Iron Mountain Public Schools	(\$558,152)	(\$248,744)	(\$427,013)	\$7,100,891	-6.01%
New Haven Community Schools	(\$296,246)	(\$65,100)	(\$180,600)	\$12,152,300	-1.49%

CATEGORY 4

Schools starting FY 2017 with a positive fund balance but project to end in deficit.

School Name	June 2015 Fund Balance	June 2016 Fund Balance	Projected June 2017 Fund Balance	Projected 2017 GF Revenues	% Deficit is of Revenues
Menominee Area Public Schools	\$523,405	\$9,966	(\$87,690)	\$12,982,580	-0.68%

CATEGORY 5

Schools eliminating deficits with the capture of school operating taxes through the Department of Treasury.

School Name	June 2015 Fund Balance	June 2016 Fund Balance	Projected June 2017 Fund Balance	Projected 2017 GF Revenues	% Deficit is of Revenues
Detroit Public Schools	(\$207,577,903)	(\$251,587,254)	(\$166,562,357)	\$97,600,358	-171%
Highland Park City Schools	TBD	TBD	(\$7,394,850)	\$1,398,999	-529%
Muskegon Heights School District	(\$1,779,531)	(\$2,007,918)	(\$2,409,118)	\$1,457,430	-165%