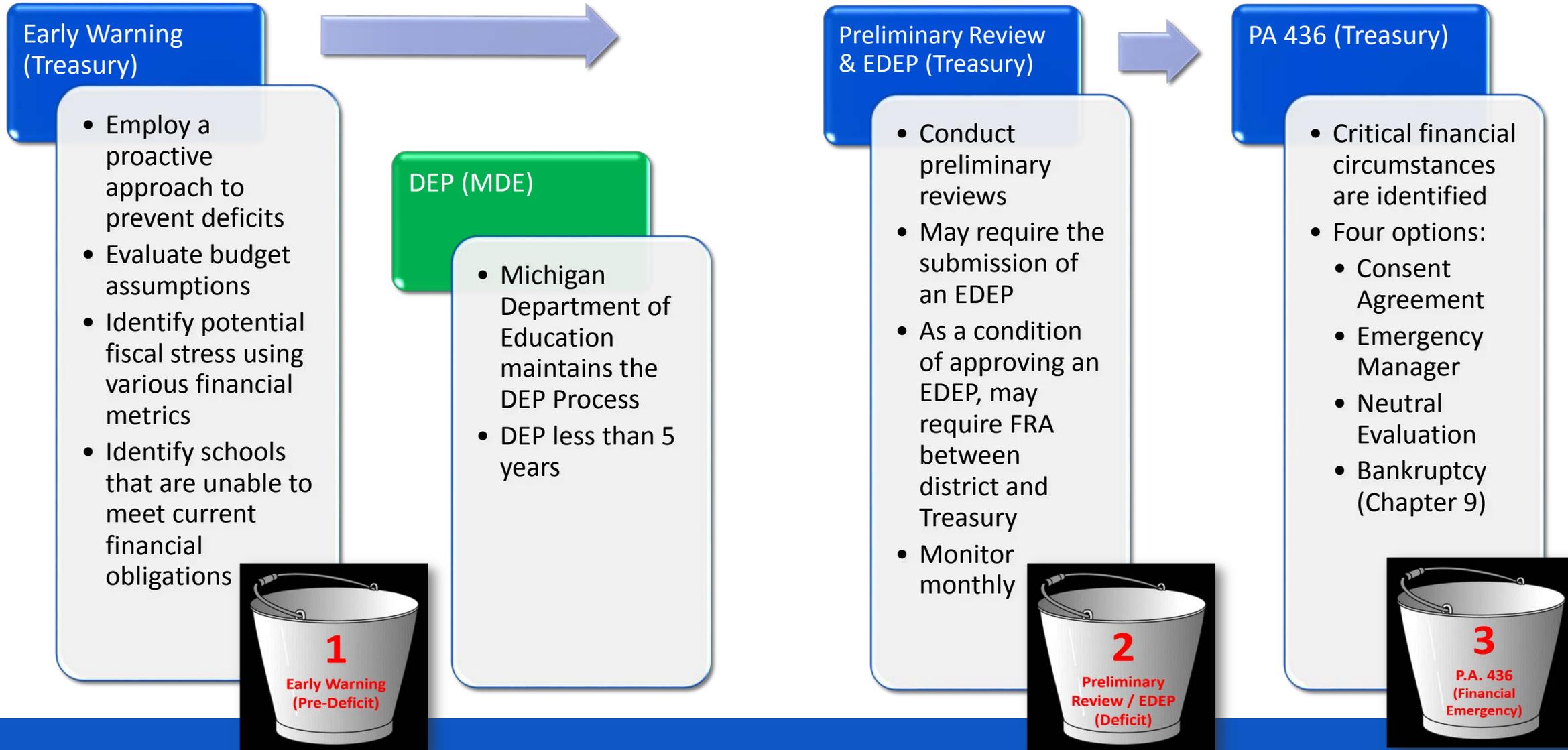


Michigan Department of Treasury

Michigan.gov/SFAD

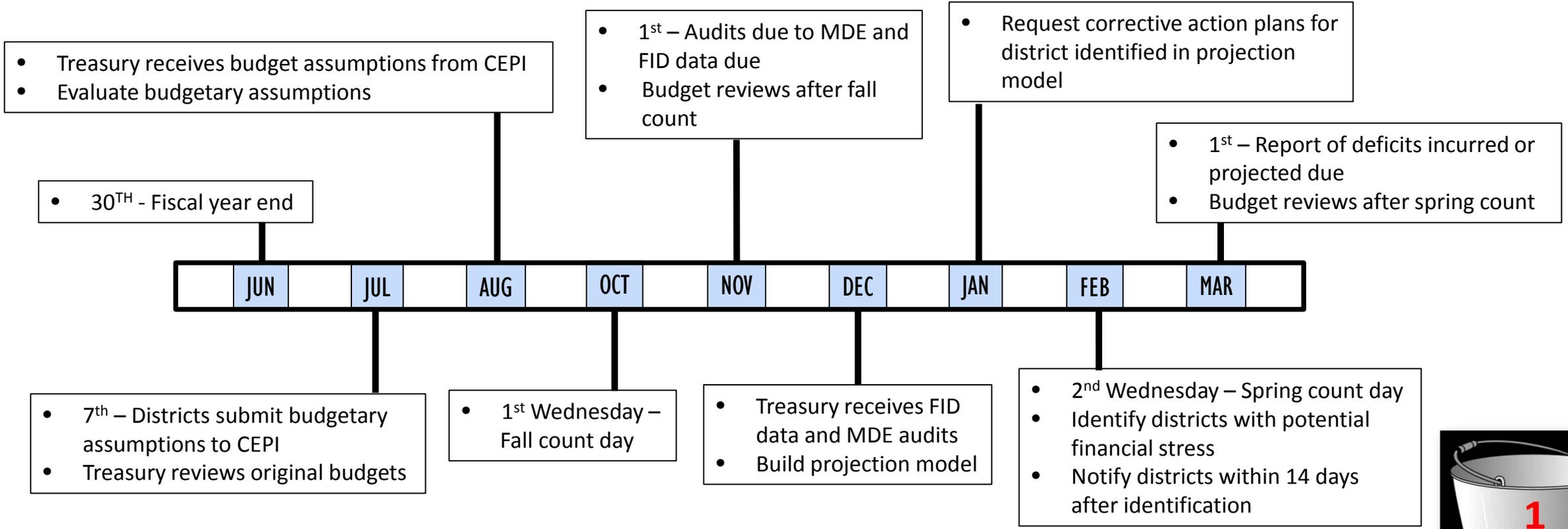


MDE & Treasury's role regarding Financially Distressed Schools



What does the timeline look like?

Early Warning Timeline



* Treasury will monitor enrollment, budgets, audits, or any other financial information for potential fiscal stress throughout the year

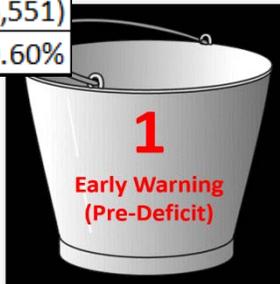


How Does Treasury Project a Deficit?

Treasury works with the team at CEPI to get the FID data as soon as possible:

- As soon as the data is available, our projection model is populated with the latest data including the Fall count numbers and all audited major financials

					Projection Model		
Enrollment	2014	2015	2016	2017	2018	2019	2020
Fall Count (FTE)	1,105.99	1,095.97	1,085.45	1,054.40	1,054.04	1,047.23	1,040.47
Change	(8.45)	(10.02)	(10.52)	(31.05)	(0.36)	(6.81)	(6.76)
3 Year Average	0.53%	-0.61%	-0.94%	-2.38%	-0.65%	-0.63%	-0.62%
Finance	2014	2015	2016	2017	2018	2019	2020
Revenue	\$ 10,207,243	\$ 10,966,098	\$ 10,759,397	\$ 11,408,641	\$ 11,170,497	\$ 11,098,367	\$ 11,026,704
Expenditure	\$ 10,300,428	\$ 10,675,136	\$ 10,882,300	\$ 11,644,172	\$ 11,349,968	\$ 11,276,679	\$ 11,203,864
Rev-Exp	\$ (93,186)	\$ 290,963	\$ (122,903)	\$ (235,531)	\$ (179,471)	\$ (178,312)	\$ (177,160)
Fund Balance	\$ 535,864	\$ 826,826	\$ 703,924	\$ 468,393	\$ 288,922	\$ 110,610	\$ (66,551)
% Revenue	5.25%	7.54%	6.54%	4.11%	2.59%	1.00%	-0.60%



How is the “Early Warning” list of schools identified?

Early Warning – Projection Model

- 3 year weighted average to identify trends
 - 75% most recently completed fiscal year, 20% previous year, 5% second previous year
 - 92% accuracy rate when applied to historical data from 2005 to 2017

- This model projects the fund balance for the current and following 2 fiscal years

- Treasury continuously reviews current budgets to identify potential fiscal stress



Early Warning – Corrective Action Plans

- Happens *after* the identification of potential fiscal stress, but *before* the declaration of potential fiscal stress
- Corrective action plans ARE NOT included in the legislation.

If the glass is half full:

Proactive

Viewed as a district opportunity

Includes a useful combination of numbers and narrative on a variety of major items.



If the glass is half empty:

Reactive

Viewed as a Treasury Requirement

Is more narrative focused and narrow in scope.



Early Warning – Corrective Action Plans

- How does OSRFA view corrective action plans?
 - They are a way for districts to “talk themselves off the list”
- What are we looking for?
 - Via Statute: **2015 PA 109 (5) (d) (i-xi)**
 - Via human-style words:

(d) Subject to subsection (6), the intermediate school district's administrative review under subdivision (a) shall include, but is not limited to, all of the following:

(i) An examination of financial practices, including at least an examination of the school district's or public school academy's compliance with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a, budget to actual expense report monitoring, and budget amendment practices after budget adoption.

(ii) An examination of staffing and a comparison of staffing to other school districts and public school academies, as applicable.

(iii) An examination of wages and a comparison of wages to other school districts and public school academies in the area, as applicable.

(iv) An examination of benefit costs as a percentage of wages and a comparison of benefit costs as a percentage of wages to other school districts and public school academies in the area, as applicable.

(v) A school building student capacity utilization review.

(vi) An examination of non-instructional costs by function and a comparison of those costs to other school districts and public school academies, as applicable.

(vii) A review of enrollment projection methods and history.

(viii) An examination of deferred maintenance and capital investment needs. Capital investment needs include technology equipment and technology infrastructure needs.

A combination of Numbers and narrative that accurately explains the district's financial position.



Early Warning – Corrective Action Plans

72 (Rev. 04-16)



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

12/19/2016



increase enrollment or revenues, and decrease expenditures by January 13, 2017. In the past, Treasury-approved corrective action plans have included changes to staffing levels, employee compensation, collective bargaining agreements, benefit costs, enrollment projections, capital investments, and transportation. (For additional guidance see MCL 380.1219(5)).

Pursuant to 2015 Public Act 109, the Michigan Department of Treasury (the "Department") has the authority to determine whether potential fiscal stress exists within a school district, intermediate school district, or public school academy. The law defines potential fiscal stress as occurring when a deficit may arise in the current or subsequent two fiscal years.

To assist the Department in accurately determining the potential for fiscal stress, a model is applied annually to the three most recent years of Financial Information Data. The model focuses on enrollment, revenue, expenditure, and fund balance. The school districts, intermediate school districts, and public school academies that are projected to incur a deficit are contacted to determine if any corrective action has occurred that may alter the projection. School districts, intermediate school districts, and public school academies that have not taken Treasury-approved corrective action will be identified as having potential fiscal stress and can choose to contract with an ISD or authorizer to perform an administrative review.

Coloma Community Schools is projected to incur a deficit in the current or subsequent two fiscal years. In an effort to avoid the declaration of potential fiscal stress, please enumerate a list of corrective actions that increase enrollment or revenues, and decrease expenditures by January 13, 2017. In the past, Treasury-approved corrective action plans have included changes to staffing levels, employee compensation, collective bargaining agreements, benefit costs, enrollment projections, capital investments, and transportation. (For additional guidance see MCL 380.1219(5)).

If Coloma Community Schools has not taken Treasury-approved corrective action, then the Department will declare potential fiscal stress and notice will be provided to the district and the district's school board within 14 days after the declaration has been made.

Please submit information by email to OSRFA@michigan.gov. If you have any questions or require assistance, please don't hesitate to contact Michael Wrobel at WrobelM@Michigan.gov or 517-335-3247.

Sincerely,

Paul G. Connors
Director, Office of School Review and Fiscal Accountability

430 WEST ALLEGAN STREET • LANSING, MICHIGAN 48222
WWW.MICHIGAN.GOV/OSRFA • 517-335-3247



Corrective Action Examples - Good

Actions to Increase Fall 2017 Enrollment

1. In April 2017, we commenced advertising on television (T.V.) for enrollment for at our school. [REDACTED] never advertised on television before. We selected a relatively new cable and over-the-air network: Bounce TV. Bounce TV is the fastest growing cable channel targeting families in our preferred demographic. The ads will run continuously through the fall Count Day. We are already seeing results. Historically, parents and students have not applied for enrollment at [REDACTED] August. This year for the first time, we have a pipeline of 12 new applications as of June 30th. All of these early applicants indicated that they became aware of our school through the Bounce TV ads.



Corrective Action Examples - Questionable

Our declining ending balance resulted from an enrollment decline and unexpected capital costs (\$34,000) related to roof, HVAC and plumbing repairs during 2016-17. Our initial budget was based on a projected enrollment of 800 students. Our October 2016 Count Day numbers came in at 783 students. Subsequently, our enrollment declined from 783 students to 734 students (-6.25%) during the course of the 2016-17 school year. The loss of 66 students @\$7,511 resulted in a total budgeted revenue reduction of \$495,726.

For the 2017-2018 school year, we developed our initial budget based upon a projected enrollment of 770 students instead of 800 in 2016-17. This was done to more conservatively reflect recent enrollment trends.



Corrective Action Examples – Highly Questionable

financial factors that may indicate potential fiscal stress. The decrease in General Fund balance noted in the letter was primarily the result of a shortfall of anticipated enrollment in school year 2016-2017 and additional debt service repayment from previous years' forbearance.

In response to this decrease in General Fund balance the following corrective action plan has been implemented at [REDACTED] for the 2017-2018 school year. The Academy has decreased expenditures to increase fiscal stability but also still maintain the academic needs of the Academy. Enrollment projections have also been adjusted to account for an anticipated increase of 100 students based on a variety of factors.



If the corrective action is substantial and proactive

If fiscal stress is not declared after receiving a corrective action plan/explanation:

- Treasury follows up to ensure the school district or public school academy is meeting all objectives of its corrective action plans.
- Treasury routinely monitors enrollment, budgets, audits, and other financial information for potential fiscal stress.



What happens if Treasury declares fiscal stress?

Early Warning – Next Steps

If fiscal stress is declared:

Treasury is statutorily required to do the following, not less than 14 days after declaring the potential for fiscal stress exists:

- Notify the governing body of the district, ISD, or PSA that the potential for fiscal stress exists; and
- That it may establish a contract with an ISD to perform an administrative review of the financial status of the district or PSA (within 60 days of initial notification).

As part of a contract, an ISD or Authorizer would have to do all of the following:

- Complete the administrative review within 90 days of entering the contract and issue recommendations.
- Present the recommendations at the next scheduled public meeting of the school district or PSA.
- Send recommendations and submit quarterly reports to Treasury.

In lieu of the above-mentioned ISD or Authorizer option, the State Treasurer may require the school district to submit periodic financial status reports.



How many districts have been identified?

Early Warning – Results

Projection Model			
Fiscal Year	Requested Corrective Action Plan	Declared Potential Fiscal Stress	Remaining Districts
2015-16	75	18	3
2016-17	50	8	3
2017-18	51	7	7

176 Total – 141 Unique Districts

Budget Review			
Fiscal Year	Requested Corrective Action Plan	Declared Potential Fiscal Stress	Remaining Districts
2015-16	30	1	0
2016-17	26	1	1

Out of the 35 districts declared to have potential fiscal stress, only 14 remain:

- 16 improved
- 4 incurred deficits
- 1 closed

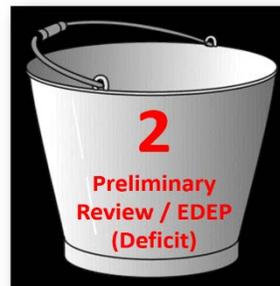
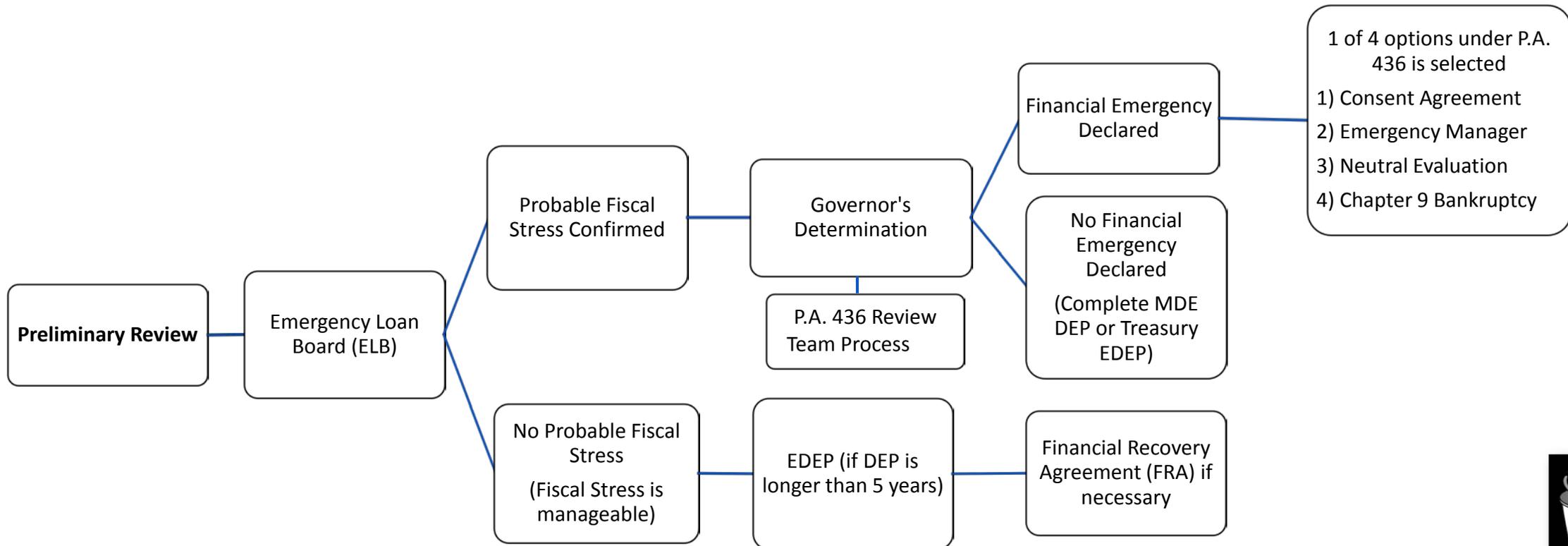
Of the districts found to have potential fiscal stress:

- 62% chose periodic reporting
- 38% chose administrative review



What is the preliminary review process?

Preliminary Review Flowchart



District Outreach

The office is looking to employ two major tools to assist districts in rectifying their financial stress.

1. Peer Comparison Tool

A tool, sortable by attendance, free and reduced lunch percentage, and the urban/sub/rural delineation.

Pulled directly from CEPI (FID and MySchoolData). The tool compares any district to like district based on sliding scales (to fine tune a peer group)

The tool pulls data in the following categories:

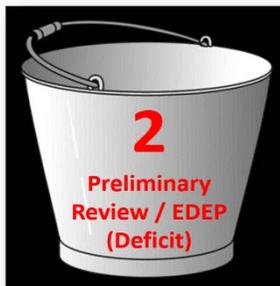
- Staffing

- Wages and Benefits

- Expenditures by Function Code

2. Financial Assistance

Developing systems for districts to qualify for direct financial assistance from the Office.



District Outreach – Peer Comparison

DistrictCode	00000	Range	FTE2016	FRL *Raw	percent above or below
Name	#N/A	District:	0.1	0.1	*Sets percent range
EntityType	#N/A	Min	#N/A	#N/A	*District value is here
Results:	0	Max	#N/A	#N/A	*Calculated Minimum Range
					*Calculated Maximum Range

We can set any parameters in Free and Reduced Lunch. EX: .05 for a district at 25% FRL would include all districts between 20 and 30%

District Code	District Official Name
03000	Alegan Area Educational Service Agency
04000	Opina-Montmorency-Alcona ESD
08000	Barry ISD
09000	Bay-Arenac ISD

Type in any district Code, or search districts by ISD or Authorizer

Similarly, we can set any enrollment percentage we choose. For most districts between 500 and 7,000 kids, adequate peers groups can be made with only a 5% range.

District Outreach – Peer Comparison

A	B	C	D	E	F	G	H	I	J
District Code	Name	Enrollment	FRL	CHECK Total	CHECK Administrators	Non-Instructional	CHECK Paraprofessionals/Aides	CHECK Teachers	CHECK
		1032.14	0.4951	136.45	10.01	30.44	21.00	75.00	
	Average - .5 Std Deviation	1001.47	0.4568	113.68	6.53	32.49	14.04	56.93	
	AVERAGE OF PEERS	1028.96	0.4785	120.88	7.36	36.56	16.52	60.44	
	Average + .5 Std Deviation	1056.44	0.5002	128.07	8.19	40.62	19.00	63.95	
05070	Mancelona Public Schools	957.69	0.5462	106.10	7.82	29.42	16.35	52.51	
12020	Bronson Community School District	1054.79	0.4872	104.11	6.00	34.02	15.49	48.60	
13080	Homer Community School District	1067.84	0.5169	121.65	7.15	37.60	10.45	65.45	
13135	Union City Community School District	1076.91	0.4328	131.85	8.00	39.85	23.00	61.00	
23065	Maple Valley Schools	1045.28	0.4526	110.02	8.00	25.07	12.10	64.85	
29100	St. Louis Public Schools	1055.04	0.4692	119.43	6.00	34.83	16.10	62.50	
38090	East Jackson Community School District	1073.96	0.5814	125.78	9.25	36.78	16.00	63.75	
38150	Springport Public Schools	929.41	0.4973	118.65	5.40	43.85	10.70	58.70	

We see both their numbers, and then an average of their peers, and a listing of peers individually (to weed outliers as needed).

We then break down by individual positions. This sample district has 0.3% more students, but 25% more teachers.

District Outreach – Peer Comparison

A	B	C	D	E	F	G	H	I
District Code	Name	CHECK Total Staff Count	CHECK Teacher Count	Teacher/Staff	CHECK Total Salary	Teacher Salary	Ave Salary	Ave Teacher
		136.45	75.00	54.97%	\$ 5,313,105.63	\$ 2,632,139.73	\$ 38,938.11	\$ 35,095.20
Average - .5 Std Deviation		114.54	57.74	48.12%	\$ 4,550,757.22	\$ 2,445,711.57	\$ 37,421.97	\$ 39,798.54
AVERAGE OF PEERS		121.74	61.25	50.53%	\$ 4,760,908.72	\$ 2,566,495.84	\$ 39,441.70	\$ 42,284.92
Average + .5 Std Deviation		128.94	64.76	52.94%	\$ 4,971,060.21	\$ 2,687,280.11	\$ 41,461.43	\$ 44,771.30
05070	Mancelona Public Schools	106.10	52.51	49.49%	\$ 4,138,166.10	\$ 2,153,862.34	\$ 39,002.51	\$ 41,018.14
12020	Bronson Community School D	104.11	48.60	46.68%	\$ 4,335,409.00	\$ 2,616,064.90	\$ 41,642.58	\$ 53,828.50
13080	Homer Community School Dis	121.65	65.45	53.80%	\$ 5,101,424.30	\$ 2,956,265.44	\$ 41,935.26	\$ 45,168.30
13135	Union City Community School	131.85	61.00	46.26%	\$ 5,292,276.14	\$ 2,551,159.17	\$ 40,138.61	\$ 41,822.28
23065	Maple Valley Schools	110.02	64.85	58.94%	\$ 5,064,110.68	\$ 2,658,820.81	\$ 46,029.00	\$ 40,999.55
29100	St. Louis Public Schools	119.43	62.50	52.33%	\$ 4,766,588.49	\$ 2,443,231.93	\$ 39,911.15	\$ 39,091.71
38090	East Jackson Community Schc	125.78	63.75	50.68%	\$ 5,215,463.23	\$ 2,745,805.31	\$ 41,464.96	\$ 43,071.46
38150	Springport Public Schools	118.65	58.70	49.47%	\$ 4,344,131.65	\$ 2,270,721.44	\$ 36,612.99	\$ 38,683.50

Able to take a deeper dive into salary

So, while this District is 25% higher in total teachers, their teachers are making roughly 83% of their peers.

District Outreach – Peer Comparison

	B	C	D	E	O	W	AA
Name	Check Total Expenditure	Check Supporting Services 200	Check Support Services - Pu 210	Check Support Services - 220	Check Support Services - 230	Check Support Services - 240	Check Support Se 240
	\$ 21,118,591.01	\$ 7,827,987.26	\$ 1,025,471.25	\$ 465,035.95	\$ 397,390.08	\$ 1,567,8	
Std Deviation	\$ 16,710,648.36	\$ 5,933,438.45	\$ 753,034.53	\$ 369,247.75	\$ 331,738.68	\$ 1,096,8	
OF PEERS	\$ 17,488,702.14	\$ 6,351,192.13	\$ 873,479.41	\$ 480,276.39	\$ 355,577.82	\$ 1,190,9	
Std Deviation	\$ 18,266,755.91	\$ 6,768,945.80	\$ 993,924.28	\$ 591,305.03	\$ 379,416.96	\$ 1,285,0	
Breitung Township School Dis	\$ 15,964,951.51	\$ 5,255,234.21	\$ 839,975.42	\$ 88,829.93	\$ 353,551.54	\$ 1,001,4	
Lakewood Public Schools	\$ 16,287,657.65	\$ 6,248,142.74	\$ 767,457.30	\$ 345,434.65	\$ 390,369.50	\$ 995,0	
Shepherd Public Schools	\$ 16,498,073.98	\$ 6,683,962.83	\$ 709,741.44	\$ 780,117.13	\$ 293,340.70	\$ 1,379,9	
Bullock Creek School District	\$ 18,144,892.06	\$ 6,406,194.95	\$ 997,295.09	\$ 830,654.19	\$ 330,848.20	\$ 1,194,0	
Tri County Area Schools	\$ 18,569,561.52	\$ 6,799,359.58	\$ 850,600.13	\$ 613,932.22	\$ 383,334.08	\$ 1,033,6	
Birch Run Area Schools	\$ 16,207,790.42	\$ 5,722,059.74	\$ 879,756.54	\$ 303,771.18	\$ 421,887.96	\$ 1,127,6	
Swan Vallev School District	\$ 16,002,509.59	\$ 4,823,622.25	\$ 334,800.02	\$ 261,205.22	\$ 276,545.19	\$ 1,092,0	

For more information:

Visit our website: Michigan.gov/OSRFA

OR Contact:

Outreach, School Review, and Fiscal Accountability
Michigan Department of Treasury
OSRFA@Michigan.gov

Michael Wrobel, Manager

Jake Brower, Financial Analyst

Sarah Spitzley, Student Assistant

WrobelM@Michigan.gov

BrowerJ@Michigan.gov

SpitzleyS3@Michigan.gov