

Michigan Department of Treasury

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What is the intent of the legislation?

Public Acts 109 – 113 of 2015

Legislation was signed into law on July 7, 2015 giving Treasury additional financial responsibilities over distressed school districts.

The primary intent of the legislation is to:

- Identify school districts and public school academies that exhibit potential fiscal stress.
- Require Treasury to conduct preliminary reviews for districts that have submitted a deficit elimination plan (DEP) that extends longer than five years.
- Allow Treasury the flexibility to monitor and assist deficit districts administratively through enhanced deficit elimination plans (EDEP) in lieu of the P.A. 436 process for deficit schools.

How is Treasury implementing the legislation?

Since July 7th, 2015...

Early Warning

- Treasury established a process for identifying school districts and public school academies that have potential fiscal stress.

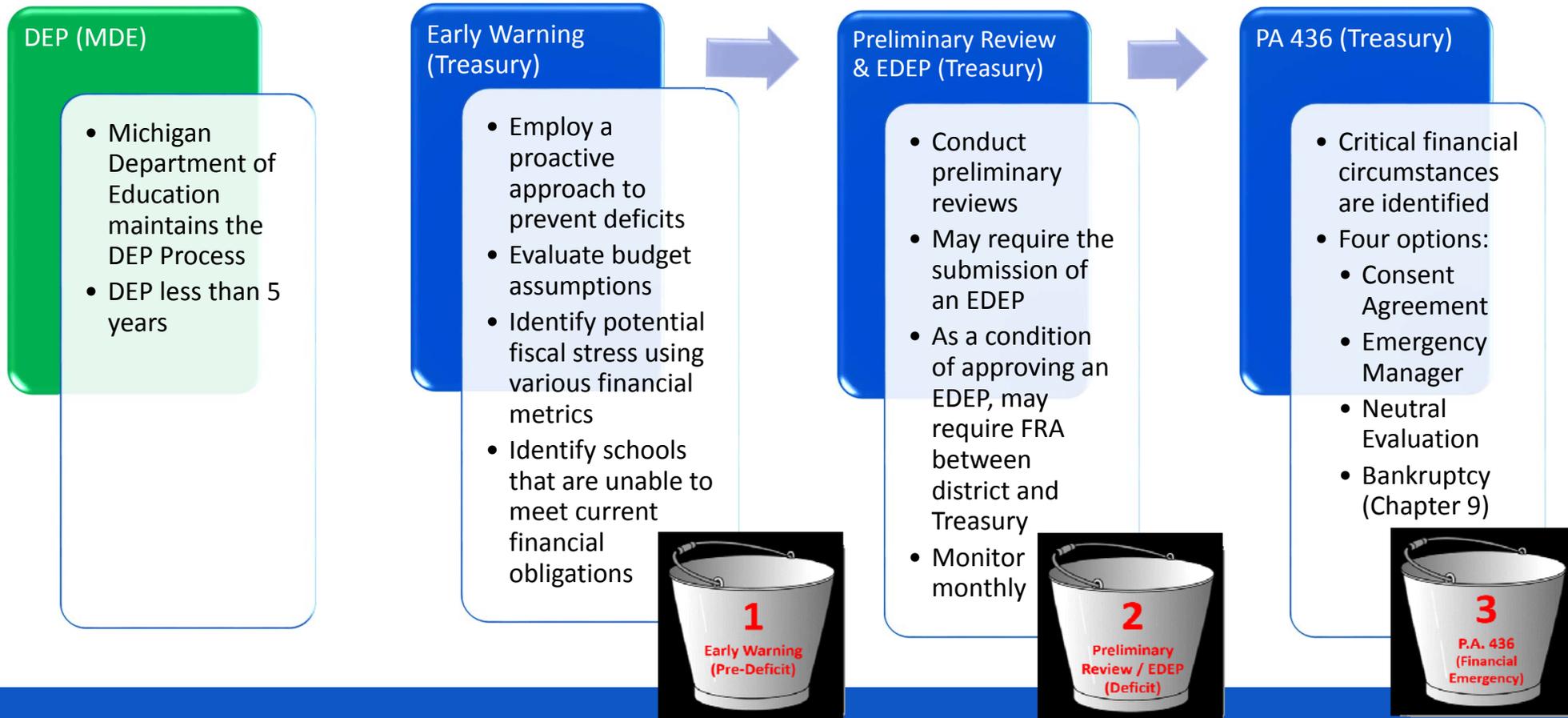
Preliminary Reviews

- The Emergency Loan Board(ELB) has reviewed seven school districts and found no probable fiscal stress. There are two more school districts that are subject to a preliminary review.

Enhanced Deficit Elimination Plan

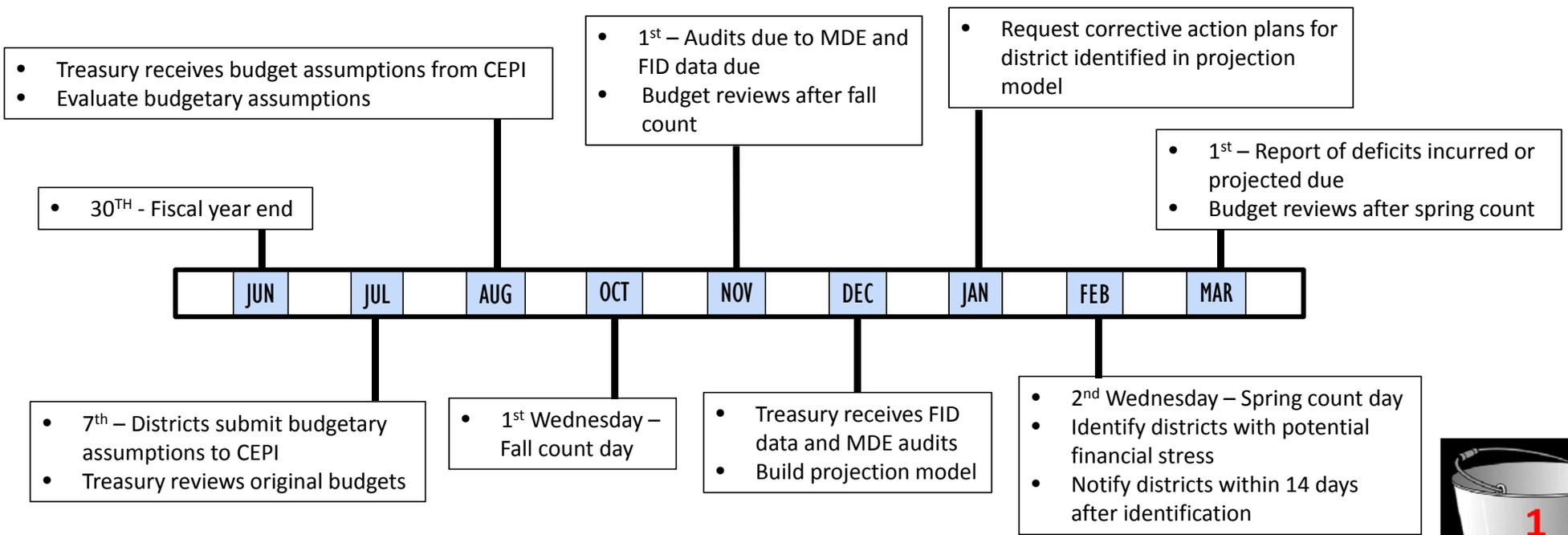
- Seven school districts are under an EDEP.
- EDEPs include measures to improve the financial position of a school district or public school academy.

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



Who is required to submit budget assumptions?

Budget Assumptions

A school district or public school academy that had a positive total general fund balance less than 5% of total general fund unrestricted revenues for the 2014-2015 and/or 2015-2016 fiscal school year must submit the following budgetary assumptions to CEPI by July 7, 2017:

- The projected foundation allowance per pupil for the 2017-2018 school fiscal year.
- The projected enrollment for the 2017-2018 school fiscal year.
- The expenditures per pupil for the 2016-2017 school fiscal year
- The projected expenditures per pupil for the 2017-2018 school fiscal year

Unrestricted General Fund Revenue will include Major Class:

- 1xx, 2xx (excluding 212), 311, 316, 318, 411, 412, 416, 418, 419, 51x, and 52x

Visit our website for more information on budget assumptions Michigan.gov/OSRFA



How are budget assumptions evaluated?

Budget Assumptions

After budget assumptions are received:

- Treasury compares its projections to the district's budget assumptions
 - Looks for values that contradict the district's historical trend
 - The district is then contacted to confirm the accuracy of the data and how they created their projections

- Fiscal stress will not be declared on budget assumptions alone
 - Budget assumptions are only one factor of Early Warning
 - We review the projection model and recent budgets before making any determination of potential fiscal stress



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

Early Warning – Projection Model

Treasury developed a fiscal projection model using historical Financial Information Database (FID) data to identify districts trending toward a deficit

- The projection model incorporates the following four key financial indicators:
 - Enrollment
 - Revenue
 - Expenditure
 - Fund Balance

- 3 year weighted average to identify trends
 - 75% most recently completed fiscal year, 20% previous year, 5% second previous year
 - 91% accuracy rate when applied to historical data from 2005 to 2015

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

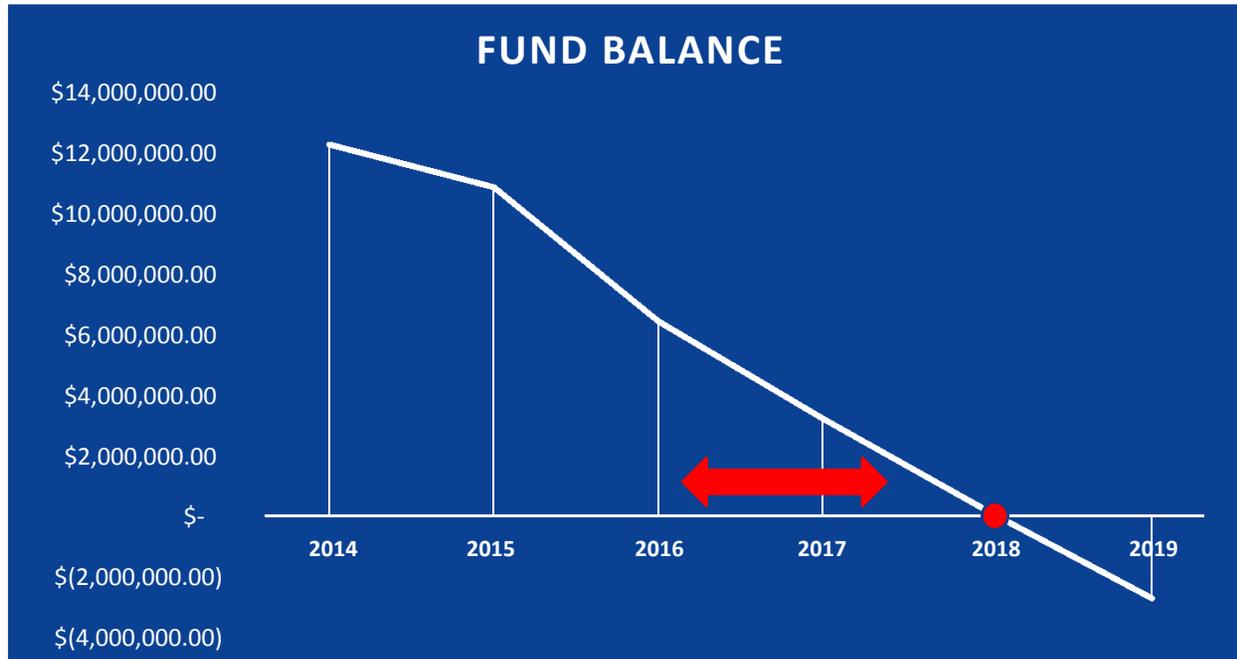
- Treasury continuously reviews current budgets to identify potential fiscal stress



How does the projection model work?

Example

- Identifies a downward trend or potential fiscal stress before the district incurs a deficit
 - Treasury may declare potential fiscal stress if a deficit is projected to occur within the current or following two fiscal years



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

Early Warning – Budget Review

Another key factor of identifying schools is reviewing original budgets and amendments

- Review over 900 budgets including LEAs, PSAs, and ISDs three times a year
 - Original budgets after June 30
 - Amendments after both count days

Looking for large decline in fund balance

- Schools which intend to appropriate over 50% of their fund balance in their current budget

It is required by law to update transparency page and budgets!

- MCL 388.1618 Subsection (2):
 - Post budgets within 15 days after your district board adopts its annual operating budget or after a subsequent revision to that budget
 - Collaborate with MDE to ensure compliance



What happens if Treasury projects a deficit or has concerns with a districts budget?

Early Warning – Next Steps

If the projection model or budget review identifies your district:

- The school district or public school academy will be asked to provide a corrective action plan or explanation for the decrease in general fund balance.
- Treasury reviews the corrective action plan along with any other financial information to determine whether potential fiscal stress exists.

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 were identified in FY 2015-16?

Early Warning – Results

In FY 2015-16 our projection model identified 75 districts based on current trends:

- 2 Districts passed a deficit budget and oversight has been transferred to MDE.
- 18 Districts were declared to have potential fiscal stress.
- 55 Districts have no potential fiscal stress at this time.

In FY 2015-16 our budget review identified 30 districts that reduced their fund balance by more than 50%

- 2 Districts were declared to have potential fiscal stress.
 - 1 District passed a deficit budget for FY 2016-17 and oversight has been transferred to MDE
- 28 Districts have no potential fiscal stress at this time.

There are currently 19 fiscally stressed districts at this time.



What is the current status of the 19 fiscally stressed districts?

Early Warning – Results

The 19 districts had the option to contract with an ISD for an administrative review or submit periodic reporting to Treasury

- Of the 19 fiscally stressed districts:
 - 10 chose to submit periodic reporting to Treasury
 - 9 chose to contract with an ISD or authorizer for an administrative review

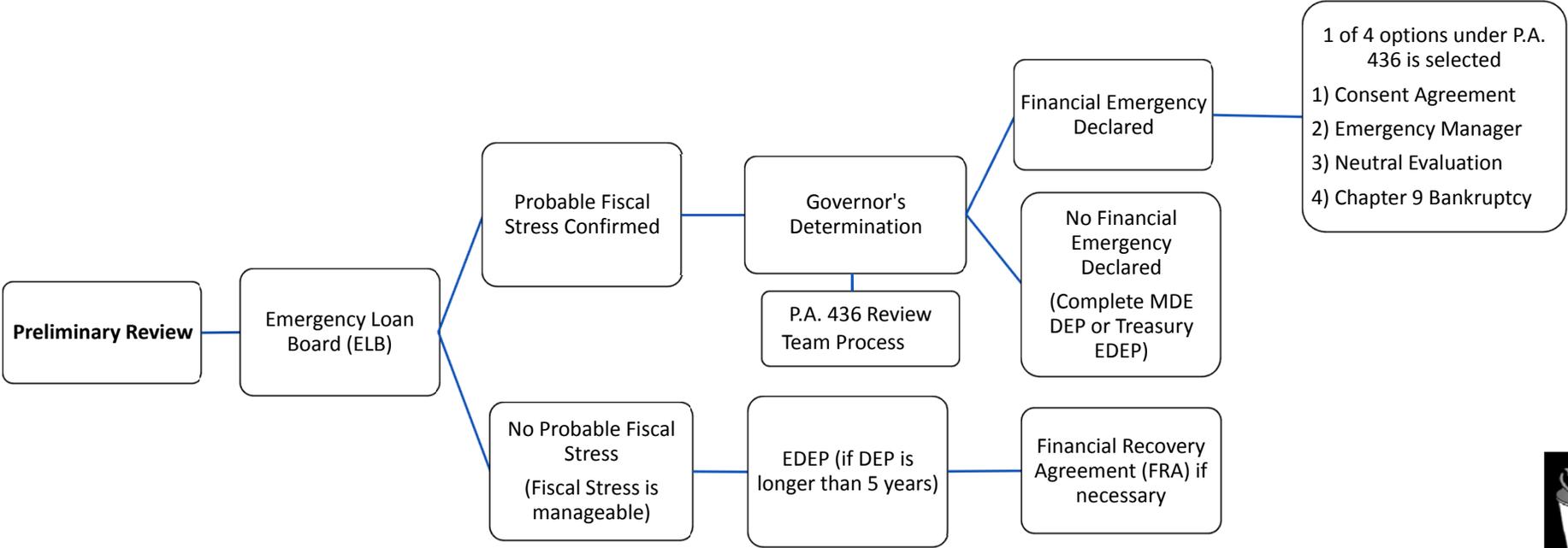
- Administrative reviews have been completed
 - Treasury receives quarterly updates from the ISD or authorizer on the status of the implementation of the recommendations

- Treasury has designed periodic reporting templates that include:
 - Preliminary and quarterly budget status reports – including major assumptions used when creating the budget
 - Monthly projected and actual cash flows



What is the preliminary review process?

Preliminary Review Flowchart



What happens if my district is subject to a preliminary review?

Preliminary Review Process

If your district is subject to a preliminary review per MCL 141.1544:

- Treasury will notify the district of the preliminary review and request additional data and documents to start the preliminary review process
- Within 20 days, Treasury will create a preliminary report of findings based on specific criteria
 - The district will be given the chance to provide comments within 5 days of the preliminary report
- Within 30 days from the beginning of this process, Treasury will complete the final report

Emergency Loan Board (ELB) Meeting

- The ELB consists of the State Treasurer, the Director of the Department of Technology, Management, and Budget, and the Director of the Department of Licensing and Regulatory Affairs (or their respective designees).

ELB makes determination of probable financial stress or no probable financial stress based on Treasury's recommendation



What happens if the ELB determines probable financial stress?

Emergency Loan Board (ELB) Process

If the ELB determines probable financial stress:

- The Governor shall appoint a review team for that school district
 - Within 60 days the review team shall submit a written report of its findings to the Governor
 - Within 10 days of the report, the Governor shall determine whether a financial emergency exists or not

If a financial emergency exists the district shall select one of the following options:

- Consent Agreement
- Emergency Manager
- Neutral Evaluation
- Chapter 9 Bankruptcy

If a financial emergency does not exist the district will complete a DEP with MDE or an EDEP with Treasury



What happens if the ELB determines NO probable financial stress?

Emergency Loan Board (ELB) Process

If the ELB determines NO probable financial stress:

- The district shall be required to submit an enhanced deficit eliminate plan (EDEP).

- EDEP process:
 - Treasury may request the school district to enter into a financial recovery agreement (FRA) with the State Treasurer
 - Treasury will visit this district to help identify issues and develop remedial measures to address the financial circumstances of the school district
 - The district shall submit monthly EDEP reporting that includes:
 - Deficit elimination plan overview
 - Monthly status report – budget to actual
 - Cash flows – projection and actual



For more information:

Visit our website: Michigan.gov/OSRFA

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