

## Legislature Passes Early Warning Bills for Financially Distressed School Districts

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June 25, 2015

The Michigan Legislature recently passed a package of bills to create an early warning system to identify the potential for financial distress in local school districts, intermediate school districts (ISDs) and public school academies (PSAs).

The legislation would supplement the process that currently exists in Public Act 436 of 2012 to address existing distress and under which emergency managers may be appointed.

The primary bill, HB 4325, would require any district without a positive general fund balance of at least 5 percent for the two most recent school fiscal years to report the budgetary assumptions used when adopting its annual budget to the Center for Educational Performance and Information (CEPI) by July 7 each year. The budgetary assumptions would need to include the district's projected foundation allowance, projected membership, estimated expenditures per pupil for the immediately preceding fiscal year and the projected expenditures per pupil for the current fiscal year. CEPI would forward the report to Treasury and either the State Treasurer or the Superintendent of Public Instruction may determine if the potential for fiscal stress exists within the district.

If either official declares the potential for fiscal distress, the local school district or PSA may choose to enter into a contract with an ISD (or the PSA with its authorizing body) to review its financial data and practices and make recommendations to avoid a deficit. The ISD would be required to submit quarterly reports to Treasury on the implementation of its recommendations.

The State Treasurer may require a district to submit periodic financial reports to the Department of Treasury if all of the following criteria are met:

1. More than 60 days have passed since the district was notified of its potential for distress.
2. For a local school district or PSA, the district has not entered into a contract with an ISD (or authorizing body for a PSA), or a contract has been rescinded.
3. The district has not had a positive general fund balance of at least 5 percent for each of the two most recent school fiscal years.
4. The district has had a declining general fund balance in one or both of the two most recent school fiscal years.
5. The district is not required to submit a deficit elimination plan or enhanced deficit elimination plan.

A district that has entered into a contract with an ISD (or PSA authorizing body) would not have to begin submitting these reports until two years after it was notified of the potential fiscal distress finding, unless the State Treasurer determines that the district is not implementing the recommendations in the contract.

A district that fails to submit a report may be required to submit an enhanced deficit elimination plan. HB 4327 would allow the State Treasurer to require a district enter into a financial recovery agreement, which could include the appointment of a local auditor, inspector or other consultants and other remedial measures, as a condition of approving an enhanced deficit elimination plan.

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HB 4328 and 4330 would allow the state to withhold certain payments, including state school aid payments from a district that fails to submit a required deficit elimination plan or for whom a deficit elimination plan is not approved. Finally, HB 4326 and 4329 would allow the State Treasurer (as opposed to the State Superintendent of Public Instruction) to recommend appointment of an emergency manager for a district that fails to submit or comply with a required enhanced deficit elimination plan.

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