

Testimony for Joint Committee Meeting on June 11, 2013

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Many are asking - What happened to Pontiac schools? And the answer is probably a combination of things, but first and foremost they have had a dramatic decline in enrollment. In September 2002 there were 11,312 students attending Pontiac schools, in October 2012 only 5,194 students – a 54% drop of their enrollment over a ten year period. Those who could drive away from the district did. Those left behind were students that more often than not suffered the challenges of high poverty and special learning needs. The concentration of at-risk students left in the district rose significantly and the number of students needing special education services is the highest in the county. Per pupil funding drove away with the students who were less costly to educate, leaving behind those more costly to educate.

Overspending revenue is certainly the problem, but consider these factors along with declining enrollment:

- A 6.3% decline to Pontiac foundation level since FY09, when they went into deficit. This is a loss of \$470 per pupil
- Percent decline in at-risk funding per pupil since FY09 was 17.2% or \$104.52 per pupil
- Decline in special education millage per pupil since FY08 was 21.5% or \$282.52 per pupil
- Elimination of declining enrollment categorical in FY10 cost Pontiac, on average, about \$87 per pupil or \$450,000 a year
- The previous four items in this listing amount to **\$944 per pupil** or about **\$4.9M per year**
- Special Education FTE count is double the statewide average
- Special education costs represent 21.7% of all Revenue in FY 11/12
- At-risk pupil count is 80% of total enrollment, an increase from 64% in 2003
- Characteristics of Pontiac School District and Neighboring School Districts (**Appendix F**)

There are likely going to be a lot of questions and comments made today about the failings of the Pontiac School District, but before we hear those, I'd like to relay some data that might just have you wonder what failed here. During the last eight years of financial decline and population turnover described above, teachers and staff at the Pontiac elementary and middle schools worked with this high poverty and highly concentrated at-risk population and raised achievement in both reading and math in grades 3 through 8 (**see Appendix D**). Improvement has been harder to achieve at the high school level which experienced an even greater population shift. I just wanted that on the record because it is a success that ought to be recognized, especially when students enter Pontiac kindergarten classrooms already behind.

- Pontiac school district has about 1,200 3 year olds and 1,200 four year olds. Less than 10% of the 3 year olds and about 53% of the 4 year olds had state or federally funded preK this year; with the expansion next year we hope that will go up to 60% for the four year olds.
- Almost 30% of students entering kindergarten are on track for early literacy skills – 70% are not.

I need to point out that Oakland Schools, like all other ISDs, has no statutory authority over its' constituent school districts. However, during the last eight years, pursuant to existing statutes, Oakland Schools has responded to every request for assistance from Pontiac School District and we have made numerous offers to assist Pontiac, some of which they accepted (technology outsourcing, software conversions, student transportation routing, special education assistance, curriculum and instructional support). I have attached a summary of Pontiac information and ISD assistance. (**Appendix E**)

On the question of using dissolution as a remedy for distressed districts, there is evidence that doing so has positive impact when high concentrations of poverty are dissolved in the process. North Carolina has some long term data showing that when high poverty students are placed in low poverty schools their achievement growth is two years higher than for their high poverty peers left in high poverty schools. Memphis is using this strategy in its school reform toolkit and Minneapolis is about to embark on same. Research on concentrated poverty and its negative impact on student achievement has been very clear since the 1960's. (**This Week in Poverty: Time to Take on Concentrated Poverty and Education** attached in **Appendix C**)

On the dissolution legislation, I don't know if it can be crafted and passed in June as there are many concerns and questions related to the current draft of the bill. Until those issues are dealt with, Oakland Schools is not able to take a position on the bill. If a small group works quickly and just about full time with good legal advice, perhaps it is doable. We would be glad to cooperate with any such effort. But, six to eight weeks is the absolute minimum needed to reassign students, staff for them, schedule their courses, and prepare facilities; and to do it in that short time a crew of people would need to work full time doing just this.

Issues specific to dissolution legislation we believe have yet to be considered and resolved are listed here and continued in **Appendix B**.

- Governance – residents of Pontiac need a voice on boards receiving Pontiac students; perhaps those boards could go to nine members for a period of time, appointments from among Pontiac applicants from the areas attached to their districts for one term and then go back to seven board members through regular election cycles.
- Attachment of students – the attachment must consider, at a minimum, the facility student capacity of receiving districts, percent of free/reduced lunch students already in the receiving district, special needs students already in the receiving district, safe school access, preservation of neighborhood schools and sense of community.
- Transition funding for the first 60-120 days to the entity that will be carrying out the transition duties listed in **Appendix A**, including things like business and facility operations until dissolved district can be shut down, asset accounting, redistribution of property and others . This could be a role filled by the ISD until actions are fully transitioned.
- Additional operational funding for students is already in the bill for the first four years, but if some of the Pontiac buildings have to be used to house students, more funding will be needed for capitol repair as the buildings are in great need.
- Districts receiving students should not have their normal per pupil funding reduced after the first four years because they accepted students from a lower funded district. After four years, funding should go back to the receiving districts normal per pupil funding whatever it is. (4815)
- Hold Harmless districts that receive at-risk students from a dissolved district should receive at-risk funding (section 31A).
- Is the district receiving the largest share of the SEV of the dissolved district really prepared to perform the responsibilities of the board of the dissolved district relative to the debt or should the ISD be given this responsibility with some cost recovery compensation from the dissolved district?
- Subsection 8 of the current bill is confusing about which labor contracts apply to whom, when; and whether this language also applies to individual contracts. It seems subsection 11 would require receiving districts to hire the newest employees first – this needs clarity.
- Will the dissolved district be able to ask voters for reauthorization of the millage for deficit funding purposes alone in subsequent years if the debt is not paid off yet?

- Who manages litigation arising out of the dissolution and attachment? Can the dissolved district be sued and, if not, to whom can a claim be made against?
- How is property to be distributed and who decides that (busses, computers, etc.) and will property be transferred to the receiving districts at no cost (page 3, lines 6-10)?
- The definition of debt for the dissolved district is too narrow – need to think about COBRA, unemployment, workers comp claims, salary accruals, litigation settlements, etc.
- Other questions in **Appendix B**.

Although I believe there is benefit to further consideration of a dissolution strategy in the toolbox for distressed districts, I am concerned about dissolution being the only option brought forward by this legislation. Most often one solution does not fit all circumstances. This option could be added to the Emergency Manager options already enacted, but I would like to offer another strategy for that toolkit. I think an option that could easily be added is for an ISD Interim Governance Plan, modeled after what is already in place as to governance authority and per pupil funding for charters and the EAA; the difference being its interim nature with the goal of returning the district to community governance after finances are back in order and schools are off the priority school list – about 3-6 years. That would give several options for these distressed districts rather than one.

We would be glad to join MAISA in working on an ISD Interim Governance Plan for distressed districts. This option would be a bit easier to transition to than dissolution. As noted above, the model for such a strategy already exists for charters and the EAA taking over schools and districts. Governance authority, pupil funding and retiring of the debt are handled in those situations as well. The difference with an Interim ISD Governance strategy is that it is temporary (3-6 years) until financials are resolved and schools are off the priority schools list. The district unions would stay intact, although staffing decisions would be made by the ISD superintendent based on evaluations and qualifications including certifications. The ISD superintendent would have full authority to operate the district, instructionally, financially, and operationally. The elected board would serve in an advisory capacity during the intervention. At the end of the ISD intervention, the community would hold an election to fill empty seats on its school board and that board would then hire a new superintendent.

During the ISD intervention, local property taxes would apply to the debt and pupil funding would come from the state as it does when a charter or EAA take over a district. Except that with the Interim ISD intervention that state funding would be temporary whereas with chartering and EAA take-overs it goes on, perhaps, forever. For Pontiac there would have to be some initial loan to repair buildings that have been neglected during the district's financial distress. Also, an emergency loan is needed so cash flow is sufficient to allow Pontiac to use its' Title I and other grants which require money be spent first before it can be reimbursed; cash flow would need to be in place for the money to be spent. Should such legislation be written and passed by July, this could probably be implemented in 4-6 weeks.

These questions, concerns and thinking about implementing a dissolution strategy are not brought forward to obstruct that strategy. As said in the opening of this testimony, there is evidence that such a strategy has positive benefits. But it is an ambitious plan to have such in place by September, 2013. To that end, we would like to bring forward a suggestion should the pending legislation not be viable for the coming year. There are tools the state has at its disposal to assist Pontiac with cash flow for all of next year. Those are:

- An Emergency Loan under legislation passed just last year
- Deficit Elimination bonds similar to what the State approved for Detroit Public Schools in 2004/5
- Tax Anticipation Note approval
- Advancing State Aid payments

If neither dissolution nor ISD Interim Intervention are doable by the coming fall, we would ask treasury to use the tools above for one year to see if Pontiac can further reduce its deficit and provide adequate programs for its students; and if not, at some point before next spring have legislation in place to force dissolution or an Interim ISD Intervention. Decisive action is needed and very soon. Pontiac School District's cash flow is not sufficient to sustain operations for the next school year. Yes, the PA 436 process is underway, but that process alone does not address the urgent need for cash flow assistance in the short term and I expect that an unintended consequence of that process will be to further erode Pontiac School District enrollment.

Thank you for your efforts on behalf of distressed school districts.

Appendix A – Tasks to be performed for orderly transition (90-120 days) for dissolution

Propose the following be done by the ISD with costs covered by property tax collected from within the dissolved district following dissolution. Districts receiving students will need to focus on scheduling students to classes, staffing for those students, preparing bus routes and facilities for students.

- Physical inventory (vehicles, busses, furniture, computers, books, etc.)
- Complete financial statements and audit for FY 12/13 (important as it establishes the debt to be paid with future property taxes, due by law on November 15)
- Transfer of property, real property and other pursuant to the attachment order
- Allocation of student records
- Allocation of personnel records
- Allocation of financial and payroll records
- Allocation of student activity account balances
- Following dissolution maintain property security functions
- Conduct facility condition assessment of each building previously in operation in dissolved district
- Negotiate termination and close out of Multi-year contracts
- Close out vendor contracts
- Handle COBRA for terminated employees
- Close out of bank and investment accounts
- Process grant reimbursement requests from FY 12/13 (Title I, IDEA, GSRP, other)
- Negotiate with vendors for accounts payable plans
- Collection of district property held by employees (computers, keys, portable devices, other)
- Provide opportunity for employees to remove personal belongings from property
- Orderly transfer of phones and all utilities
- Receive property taxes during transition period
- Close out of insurance policies (property, GL, etc.)
- Compliance with bargaining unit contracts during transition period
- Set up of debt retirement accounts – capital and other-to be transferred to control of district receiving the largest territory including workers compensation, several accounts for capital debt, operating debt and other transition costs, and judgment levy accounts
- Establish employment termination dates – some earlier than others (accounting/finance, payroll, technology, grant management, security, etc.) and calculate sick leave and vacation payouts
- Continue to pay employees of the dissolved district whose service is necessary during the transition period
- Continue to pay vendors whose services are necessary during the transition period (facility maintenance, custodial, security, software licenses, accounting, etc.)
- Develop a plan for rerouting internet connectivity while maintaining connectivity for each building until the plan is implemented, including maintaining operations of security systems.
- Hand-off to the district that is receiving the largest part of the dissolved district by November 15th, or keep with ISD until each task is fully done.

Appendix B – Other Questions Around Dissolution of Distressed District

- At what moment is the district dissolved and the board members no longer board members with no authority and no responsibility?
- When is employment with the dissolved district terminated?
- Who controls bank accounts, assets and property at moment of dissolution?
- Once a district is dissolved, from whom do unpaid vendors seek payment?
- Who is responsible for security of property, paying utilities, insurance, etc.
- What about multi-year contracts – are they immediately terminated?
- If the dissolved district has receivables at the time of dissolution, who will receive them?
- Who will employees turn district property in to?
- A physical inventory should be required – who is to do it and who will pay for it?
- To whom do terminated employees go for COBRA?
- Who is responsible for the student transcripts, forever; the personnel files, forever; and for record retention compliance?
- Who is responsible for handling open insurance claims, open workers compensation claims, etc.?
- To whom shall property taxes owed to the dissolved district be paid?
- Section 9 insulates the receiving district from test scores from the dissolved district for three years, but that seems to be on a district level; what about school buildings that may continue to operate?

Appendix C

This Week in Poverty: Time to Take On Concentrated Poverty and Education

<http://www.thenation.com/blog/172589/week-poverty-time-take-concentrated-poverty-and-education>

This Week in Poverty: Time to Take On Concentrated Poverty and Education

Greg Kaufmann on February 1, 2013 - 11:26 AM ET



Students at the Lilla G. Frederick Pilot Middle School in Dorchester, Massachusetts. (Reuters/Adam Hunger)

Co-authored with Elaine Weiss

Researchers know a lot about how various factors associated with income level affect a child's learning: parents' educational attainment; how parents read to, play with and respond to their children; the quality of early care and early education; access to consistent physical and mental health services and healthy food. Poor children's limited access to these fundamentals accounts for a good chunk of the achievement gap, which is why conceiving of it instead as an opportunity gap makes a lot more sense.

But we rarely discuss the impact of *concentrated* poverty—and of racial and socioeconomic segregation—on student achievement. James Coleman's widely cited 1966 report *Equality of Educational Opportunity* has drawn substantial attention to the influence of family socioeconomic status on a child's academic achievement. However, as Richard Kahlenberg, Senior Fellow at the Century Foundation, notes: "Until very recently, the second finding, about the importance of reducing concentrations of school poverty, has been consciously ignored by policymakers, despite publication of study after study that confirmed Coleman's findings."

It's time that we stop ignoring it. The past few decades have seen increasing income polarization, with the top 1 percent reaping the vast majority of societal gains, the middle class shrinking, and those at the bottom losing ground. As a result, concentrated poverty is more potent and relevant an issue than ever. Add to that the fact that 2012 marked the twenty-fifth anniversary of William Julius Wilson's groundbreaking book, *The Truly Disadvantaged*, and we have every reason to reexamine the life realities, impacts and policy implications of segregation and entrenched, concentrated US poverty.

Wilson's research explains how a combination of northward migration among African-American families, disproportionate loss of jobs in the industries in which they worked and the mass migration of middle-class black families from city centers to suburbs, created an underclass comprised of the truly disadvantaged: concentrated ghettos of poor, unemployed, under-educated families with dim school and life prospects, largely headed by single black women. Although Wilson's work spurred multiple policy fields and thousands of studies on concentrated poverty, the reality for those experiencing it remains tragically unchanged. The number and proportion of families living in concentrated poverty dropped briefly during the boom years of the 1990s, but it has since increased again and even spread further:

[T]he problem of poverty concentration is growing, and the type of district grappling with the issue is no longer confined to those in urban areas. According to the U.S. Department of Education's *Condition of Education*, 47% of elementary students now attend majority low-income schools, and the proportion of high-poverty schools has grown from 34 % in 1999 to 47 % in 2008. A 2010 Brookings Institution report, "The Suburbanization of Poverty," found that in the nation's largest metropolitan areas, more poor people live in large suburbs than in their primary cities. (Kahlenberg p.3)

This trend frustrates efforts to improve educational achievement among low-income and minority students. Concentrated poverty plays a key role in explaining why poor white students perform better on tests, on average, than African-American students with similar family incomes. Not only are white children much less likely than their black peers to live in poverty

(12.5 percent versus 37 percent), among those who are poor, only 12 percent of white children live in concentrated poverty, while nearly half of poor African-American children do. Black students are thus much more likely to attend schools in which most of their classmates are also poor. It isn't hard to imagine the impact of this divide: black students disproportionately lack peers whose parents went to college and who take for granted that they will go; their schools and the pathways to them are more likely to be dangerous; their PTAs are comprised of parents with little political power to get the school system to meet their demands; and too many parents are overwhelmed by factors that render help with homework a major challenge—multiple or late-night jobs, cramped and unhealthy housing, lack of heat, and insufficient food.

Breaking up concentrated poverty and reducing segregation at the neighborhood and school levels offers tremendous potential. As Kahlenberg points out, “on the National Assessment of Educational Progress (NAEP), low-income fourth grade students given the chance to attend more-affluent schools in math are two years ahead of low-income students stuck in high-poverty schools.”

Dr. Heather Schwartz, policy researcher at the RAND Corporation, also finds that socioeconomic integration trumps extra resources in boosting achievement. In her rigorous study of Montgomery County, Maryland, schools, low-income students whose subsidized housing assignments enabled them to attend very low-poverty schools closed more of the achievement gap with their high-income peers than did low-income students in higher-poverty schools who received an additional \$2,000—monies which were devoted to extended learning time, smaller classes, and specialized professional development.

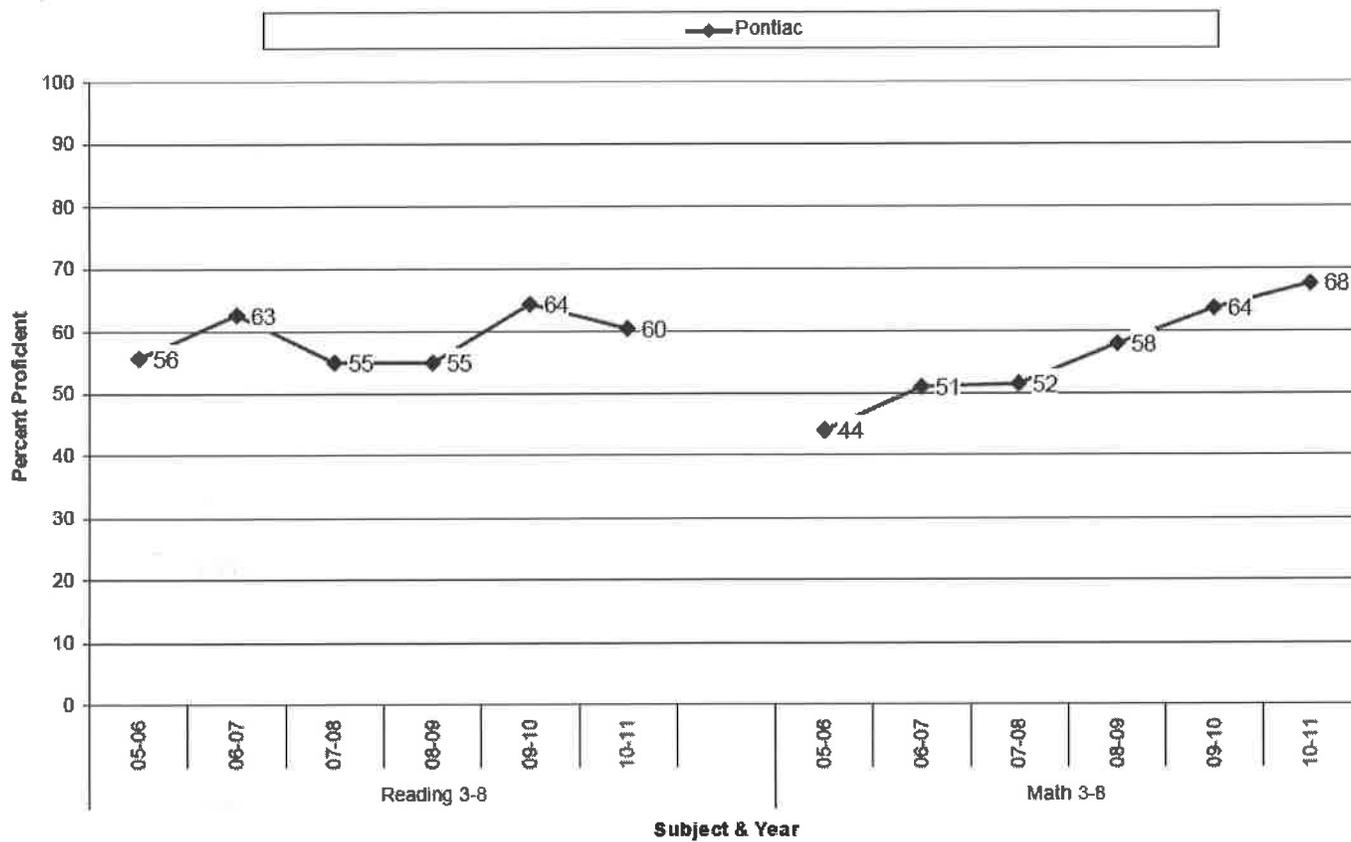
Effective policies exist to de-concentrate poverty and desegregate schools. Montgomery County showcases one of the smartest: laws that require developers to set aside a proportion of new housing units for subsidized housing, so that rather than creating ghettos of all-poor families (and resource-poor schools to go with them), lower-income families are able to reside in higher-income areas, and their children attend higher-income schools. Counties and cities across the country are exploring and adopting less restrictive zoning laws, since minimum acreage lot requirements inherently lead to income segregation and force the concentration of poverty in less-restricted regions. The Century Foundation's recent book, *The Future of School Integration*, advocates school “choice” focused on integrating students through voluntary inter-district transfer, and magnet schools that draw students of different ethnic, racial, and socioeconomic backgrounds without busing, by making the case to today's parents that a twenty-first-century education requires no less.

As the United States increasingly regresses toward a Gilded Age of haves and have-nots—in terms of income, education, and opportunity—taking on concentrated poverty is critical. Indeed, Richard Rothstein and Mark Santow assert in their recent paper that, until we do so, education reform efforts are all but doomed. Continuing to consign so many children and families to communities devoid of pathways out of poverty is tantamount to throwing away our greatest resource for the twenty-first century: human potential.

Elaine Weiss is the national coordinator for the Broader, Bolder Approach to Education, where she works with a high-level Task Force and coalition partners to promote a comprehensive, evidence-based set of policies to allow all children to thrive.

Appendix D – Pontiac Grades 3-8 Achievement Trend

MEAP 2005-06 – 2010-11 Grades 3-8 Combined



Appendix E: Summary of Support Provided to Pontiac School District by Oakland Schools

- IN FY 2001/2002 the Pontiac School District had a positive fund balance of \$12.9 Million. By June 30, 2005 the fund balance had been reduced to only \$1.5 million.
- The district's enrollment had dropped by 28% between Sept. 2002 and September 2007. During the latter part of FY 07/08 Oakland Schools (OS) provided a detailed assessment of district operations and finances.
- During FY 08/09, OS provided an Interim Supt, Interim Chief Academic Officer, Interim Business Official, Interim Director of Career and Technical Education, Interim Human Resource officer, Special Education consultants. During this period and in the face of severe declining enrollment, The Interim Supt recommended the closure of nine (9) of the school district's 18 buildings (including one of two high schools) and the board agreed. Oakland Schools provided all of the new school attendance boundaries and bus routing recommendations. The board later revoked one of the building closings.
- The school closures came too late and labor costs had not been adequately addressed. Pontiac's first deficit became known in mid- 2008 but this was no surprise. OS provided assistance with development of their first deficit elimination plan. Note: Enrollment had dropped by an additional 13% between 2007 and 2008 and by September of 2009 the enrollment dropped again by another 15% in just one year.
- Oakland Schools provided all of the new school attendance boundaries and bus routing recommendations.
- Oakland Schools consultants and legal firms assisted Pontiac with Maintenance of Effort and Supplement vs. Supplant issues with respect to Title I , IDEA and ARRA monies.
- During the first six months of FY 09/10 Oakland Schools continued to provide an Interim Chief Business official.
- Several times over the past few years Oakland Schools has conducted audits of student transportation routing being provide by a third party vendor. Results were significant savings for the District.
- Pontiac School District outsourced payroll in FY 10/11 to a third party vendor and the decision was not implemented well. Pontiac lost the ability to know where it was at financially shortly after this decision was implemented and did not regain an understanding of its financial condition until March of 2013.
- In late FY 11/12 Oakland Schools began converting Pontiac to a new Finance and HR Software system. By October 2012 the system was installed and operating despite high Pontiac staff turnover. This effort was subsidized by Oakland Schools.
- Pontiac outsourced its Technology Services Department to Oakland Schools on July 1, 2012.
- Enrollment at Pontiac continued to plummet. From Sept 2009 to Sept 2012 the enrollment had dropped by an additional 13.4%. From 2002 to 2012 the enrollment had dropped by 54% for an average annual enrollment decline of 5.4%.
- Oakland Schools provides a full time Truancy Officer to serve the Pontiac School District.
- Throughout the last eight (8) years, Oakland Schools has provided substantial training and staff development to the Pontiac School district in most areas of operations. Instability of management and staff in general during this period has made this a most difficult effort.
- Since the districts first deficit fund balance on June 30, 2008 Oakland Schools has provided cash flow assistance by advancing "current year" Special Education funding as well as Medicaid funding.

Pontiac School District: Selected Characteristics

Deficit Fund Balance as of 6/30/12	\$37.7 Million
Fund Balance as a percent of revenue	-52%
Foundation funding per pupil FY 08/09	\$ 7,491
Foundation Funding per pupil FY 12/13	\$ 7,021
Percent decline in foundation funding per pupil since FY09	-6.3%
September 2002 student count	11,312
October 2012 student count	5,195
Enrollment decline over ten years	6,117
Enrollment decline as a percent over LAST ---ten years	54.1%
Enrollment Sept 2008	8,133
Enrollment decline last five years	2,938
Enrollment decline as percent last-----five years	36%
Amount of Declining Enrollment funding received since 2009	ZERO
Per cent of resident students attending Pontiac School district	48%
Number of resident students attending charter schools	3,625
Number of students attending other school districts	1,977
Number of at risk students FY 12/13	4,129.0
At-risk(low income) students as per cent of total enrollment FY 03	64.7%
At-risk(low income) students as per cent of total enrollment FY 13	79.5%
Section 31 a At-risk funding per pupil in FY 02	\$768.66
Section 31 A At-risk funding per pupil in FY 12/13	\$502.50
Decline to per pupil At-risk funding per pupil FY 02 to FY 13	\$266.16
Decline to per pupil At-risk funding per pupil FY 09 to FY 13	\$104.52
Percent Decline to Funding per At-risk pupil FY 02 to FY 13	-35%
Special Education headcount	1,018
Special Education headcount as percent of total enrollment	20%
Statewide avg Spec. Ed headcount as % of total FY 10	14.3%
Special Education FTE 2012/13	425.16
Special Education FTE as percent of total FTE	8%
Statewide average Special Ed FTE as % of total FTE (FY 10)	3.9%
PA-18 Special Education millage funding per pupil FY 08	\$ 1,315.52
PA-18 Special education millage funding per pupil FY 13	\$ 1,033.00
Avg. per pupil Decline in Special Ed Millage funding FY 08 to FY13	\$ 282.52

Per Cent Decline in Special Ed. millage funding per pupil		21.5%
Pontiac special education costs in FY 11	\$	15,798,061
Special Education cost as Per cent of revenue FY 11/12		21.7%
Special Education expenditures as per cent of total expenditures FY 11/12		18.4%
Statewide avg Spec. Ed expend. As % of total expenditures		13.7%
FY 11/12 Employee benefit costs as % of wages		56.3%
MPSERS pension rate FY 02/03 Paid by Pontiac		12.17%
MPSERS pension rate FY 07/08 Paid by Pontiac		16.72%
MPSERS pension rate FY 11/2 paid by Pontiac		24.46%
FY 11/12 General Fund Expenditures per pupil	\$	15,278
FY 11/12 General Fund Revenue per pupil	\$	12,942
Difference : per pupil revenue vs per pupil expense	\$	(2,336)

**Characteristics of Pontiac School district and neighboring school districts
(excludes Clarkston)**

K-12 students in the 7 school district area	64,441	
Six school districts neighboring Pontiac	Lake Orion, Rochester Hills, Bloomfield Hills, Waterford, West Bloomfield and Avondale	
Number of schools	101	
Number of schools in the school districts	91	
Number of charter schools	10	
Number of schools serving high school students	28	includes one in Pontiac
Number of high schools with more than 600 FTE	13	
Number of high school age students	20,693	