



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

RICK SNYDER
GOVERNOR

MICHAEL P. FLANAGAN
STATE SUPERINTENDENT

June 11, 2013

Senator Pavlov, Representative Lyons, and members of the Senate and House Education policy committees:

Please accept this letter as a commitment and pledge of my support for House Bills 4813 and 4815 – legislation that will help keep our state’s children in schools and their educations continuing in situations when their locally-controlled school districts no longer are financially viable.

Michigan has a long history of being a “local control” state in the governance and administration of its schools. In a limited number of situations, however, those entrusted with that authority are unable or unwilling to fulfill their financial management responsibilities. Current state law requires some remedies the state must take in those circumstances: requiring Deficit Elimination Plans; possibly a withholding of their state aid funds; advancing a district’s monthly state aid payment on a very limited basis; and as a last resort, the possibility of an Emergency Manager.

The Michigan Department of Education and I, the State Superintendent, have the responsibility and burden to follow the state law.

I often am put in a position to “do something” to help schools in financial deficit, or in the extreme cases like Buena Vista, give schools more money so they can re-open their doors. Simply put – I don’t have that authority in law. In fact, I have very few options and very little authority under current law when it comes to assisting deficit districts and districts in financial emergencies. That is, unless, the Legislature chooses to give me more legal options and authorities. I believe that is the spirit and intent behind House Bills 4813 and 4815.

I said last week before a joint House and Senate Appropriations subcommittee meeting, and I write this here today to the two education standing committees, that I humbly would accept the authority vested the State Superintendent in House Bills 4813 and 4815. I would be willing to accept that responsibility, if the Legislature believes it would be helpful and appropriate.

My interest, like I am sure is yours, is in the guaranteed education of the students of Michigan. House Bills 4813 and 4815 will allow for the expedient response to keep children in classrooms should their local districts teeter financially.

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The dissolution of a local school district never is a preferred action to take, but there are times when it is the most prudent course to take for the education of its students. And it is not a new concept in Michigan. One-hundred years ago (1913), there were 7,327 local school districts in Michigan. Fifty years later (1963), there were 1,515. Today, there are 549 traditional local school districts.

I am certain that most, if not all of you, represent local schools districts that are an amalgamation of other districts that have dissolved or consolidated. That is the result of communities that could see the writing on the wall and did the right thing for their students. House Bills 4813 and 4815 address the extreme situations when that vision is not as clear, but obviously necessary.

I respectfully thank the Senate and House Education Committees for their attention to this urgent matter and their consideration to my commitment to lead.

A handwritten signature in black ink, appearing to read "Mike Flanagan". The signature is stylized with a large, sweeping flourish at the end.

Mike Flanagan
State Superintendent

Record 55 school districts in Michigan facing deficits

9:04 PM, June 6, 2013 |



By Kathleen Gray

Detroit Free Press Lansing Bureau

LANSING — With a record number of school districts in the state facing budget deficits, lawmakers and education officials are now talking about the need to dissolve shrinking and debt-ridden districts to manage the problem.

“There is an inevitability to districts like Buena Vista having kids not in school,” said state Superintendent Michael Flanagan after a presentation Thursday to House and Senate lawmakers. “So forget who’s to blame, we’ve got to get ahead of this train here, and there is some role for dissolution in that.”

It’s not just urban school districts, such as Detroit, Ecorse and Pontiac, that are operating with crippling deficits, Flanagan said. Fifty-five districts, including Mt. Clemens, Brighton, Pinckney and White Cloud, are spending more money than they’re taking in.

The districts in deficit — including 25 in Wayne, Oakland and Macomb counties — span the state and are in four categories: 10 districts that are expected to emerge from deficit spending by June 30; 23 districts that will begin their fiscal year with a smaller deficit; 16 districts that will end the year with a bigger deficit and six districts that started the year with a positive fund balance but will end the year with a deficit.

It’s the largest number of deficit-ridden schools the state has seen, Flanagan said.

“There are many reasons,” he said. “Some may have experienced an enrollment decline over the summer, or maybe you don’t have a good financial person. Sometimes there are boards that don’t want to make the tough decisions.”

He told legislators on a joint House and Senate Appropriations subcommittee that if he had his way, there would be countywide school districts, and he would have the authority to dissolve districts that clearly were not emerging from deficit.

Such is the case in the Buena Vista school district, which temporarily closed its doors in May because it had run out of money.

State Reps. David Rutledge, R-Ypsilanti, and Bill Rogers, R-Brighton, agree that more drastic action needs to be taken. They introduced legislation last week that would allow the state superintendent and the

Michigan Department of Treasury to take over insolvent school districts and work with the intermediate school district in that county or other surrounding districts to quickly provide education for the students.

"I'd be willing to accept more authority, although I don't necessarily want a bigger target on my back," Flanagan said.

He pointed to the Pontiac school district, which has a deficit of \$29.9 million. On Thursday, the Local Emergency Financial Assistance Loan Board formally found "probable financial stress" exists in the district. The declaration is the next step toward the possible appointment of an emergency manager, a consent agreement, a neutral evaluation process or Chapter 9 bankruptcy.

The state also is doing such a review for the Buena Vista schools.

While the record 55 districts sounds dire, Flanagan pointed out that there are more than 800 locally controlled public and charter schools.

"If I were to put my educator hat on, I'd say we need more resources," he said. "But with my superintendent hat on, I have to put districts' feet to the fire."

Gov. Rick Snyder said that many schools haven't done a very good job of planning for shrinking enrollments. He pointed to the Ann Arbor Public Schools, which opened another high school a few years ago despite declining enrollment, and was recently forced to eliminate busing in the district.

State Sen. John Pappageorge, R-Troy, told Flanagan to develop a proposal and give it to the Legislature.

"The world is full of critics, and we need playwrights," he said. "Why don't you give us a county system to look at? We're not capable or have the staff to do something like that. I would welcome you guys telling me what laws and what procedures we have to change."

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MIRS Capitol Capsule, Thursday, June 6, 2013

10% Of Traditional Public School Districts In Deficit

Fifty-five of the state's 549 traditional public school districts are in deficit, state Superintendent Mike **FLANAGAN** told the Legislature today. That's the highest number the state has seen, and more than what was projected.

"To our knowledge, there are now 55 local-controlled, key being local-controlled . . . that are operating in a budget deficit," Flanagan told members of the House and Senate School Aid Appropriations subcommittees this morning.

These numbers represent an increase, even though the quarterly report in February projected fewer schools would start Fiscal Year (FY) 2014 in deficit (See "Fewer School Districts Projected To Be In Deficit For FY '14," 2/26/13).

It's expected that 10 of the 55 districts will be out of deficit by the end of the school fiscal year, though those final numbers don't have to be reported to the state until November. It's not clear how many new districts could enter deficit situations.

The Pontiac School District, one of the deficit districts, was found to be in "probable financial stress" today by the Local Emergency Financial Assistance Loan Board, triggering a process whereby the district will go through a full review team process and possibly end up under emergency management.

In February, there were 49 deficit districts. The most recent number is part of a larger trend. The number of deficit districts has been on a steady climb, going from 27 in 2008 to today's 55.

Flanagan said that although charter school districts also find themselves in financial trouble, authorizers are quicker to step in or close them down, so they don't often end up on the deficit district list.

But the reason he emphasized local control is that he took issue with the media and others having pinpointed him as somebody who should be fixing the Buena Vista Schools situation when he didn't have the authority to fix it.

"I'm often put in the position to 'do something' to help schools in financial deficit or in an extreme case like Buena Vista give schools more money so they can re-open their doors. But I don't have the authority, under law, to do that," said Flanagan.

He said that statute would need to be changed for him to step in and save districts the way he gets pressured to.

"In fact, I actually have very little authority, under current law. . . unless the Legislature chooses to give me more authority. I'd be willing to accept more authority if you feel it would be helpful and appropriate. I don't necessarily want a target on my back, but if you think that's what's necessary, let me know, and I'd be happy to have the authority to do what you see fit," said Flanagan.

He said one problem was probably Michigan's number of school districts. According to data from the Michigan Department of Education (MDE), the state since 1977 has lost about 23 percent of its students, but only closed 3 percent of its school districts.

"Frankly, if I had my way, I should just say once and for all, we'd probably have countywide school districts," said Flanagan.

But Sen. John **PAPPAGEORGE** (R-Troy) and Rep. Terry **BROWN** (D-Pigeon) took issue with that idea.

Brown pointed out that bigger isn't always better, and some of the biggest school districts in the state had ended up on the deficit list.

Pappageorge said he'd like to see a proposal from the department on creating countywide districts, as legislators didn't have the time or staff to pull that together.

"When you say I can't do something because of the law, then you have to stake some responsibility for saying the law's wrong," said Pappageorge.

He also said it would be impractical to make Oakland County its own district for example, since it had a larger population than six states.

Flanagan told reporters afterward the Michigan Department of Education (MDE) may come up with a specific proposal, but he thought the county solution was pretty self-evident. He knows of one Intermediate School District (ISD) with 3,000 kids and two districts that he said could definitely function with one district.

"Ok, if Oakland County's too big, make them a state, I don't know," said Flanagan.



GONGWER Michigan
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Senate Activity Report | House Activity Report

Flanagan: With More Deficit Districts, Superintendent Needs More Authority

Though it is expected to be a blip, the state has hit at least a recent record on the number of districts in deficit, and Superintendent of Public Instruction Mike Flanagan told a joint meeting of Appropriations subcommittees that his office needs more authority to deal with some of the longer-term problems.

Mr. Flanagan also urged the Legislature to consider changing the state to county-wide school districts, which was thrown back at him as a challenge to develop such a plan.

The discussions came as part of Mr. Flanagan's third quarterly report to the House and Senate Appropriations subcommittees on the School Aid Fund budget on deficit districts. He said there are currently 55 districts in deficit, but he said 10 of those were expected to resolve their deficits in the budget they must approve by the end of the month.

Governor Rick Snyder, at a separate event Thursday, said the number of deficit districts "just reinforces the need to increase the amount of dialogue and discussion we're having with local school districts." Mr. Snyder said districts also need to plan two to three years ahead when it comes to enrollment levels.



Superintendent
of Public
Instruction Mike
Flanagan

Local school management also is a concern in some spots, Mr. Snyder said.

"We've got some outstanding school boards," he said. "We have others that are somewhat challenged in terms of either how they're managing their district or the ability to fully understand the financial implications of arrangements they've gotten into."

Given that there are more than 800 school districts in the state, including charter schools, those districts should largely be left on their own to develop and implement budgets, Mr. Flanagan said.

"We've got confidence local school boards overall are making the right decisions," he said.

But he said there are some instances where the state needed to be able to step in, maybe beyond the appointment of an emergency manager to simply dissolving the district.

"I know in some cases that would be the best for the kids and maybe for the districts," he said. "I think we need to get over the idea of dissolving a small district or even any district."

He pointed particularly to Buena Vista Schools, not just because of its recent financial troubles (it has requested a financial review that could lead to appointment of an emergency manager) but because those troubles came in large part because it has lost population. The district is currently at about 400 students and is projecting losses from there.

And he noted after the meeting there are some intermediate school districts with only 3,000 students, meaning their constituent districts are smaller yet.

He said, during the meeting and to reporters after, that such consolidations would have to be made carefully. Many have suggested, for instance, that Buena Vista be merged with neighboring Saginaw Public Schools. But he said after the meeting such a merger would not be a simple process. "There are rivalries with Saginaw that would be exacerbated (if the districts merged)," he said.

Mr. Flanagan said he had not taken a position on legislation in the House (HB 4813 and HB 4815) that would grant him that authority because he had not yet read the legislation and understood it was still in development.

The bills could get a first hearing at a joint meeting of the House and Senate Education committees next week. Sen. Phil Pavlov (R-St. Clair), chair of the Senate Education Committee, told Gongwer News Service the goal was to move quickly on at least parts of the legislation, but it appeared later Thursday that the committee chairs might not be able to pull the meeting together.

"I don't know that we're going to be able to give them everything they're asking for right away," Mr. Pavlov said. "At the very least we can address the issues of Inkster and Buena Vista."

He said both of those districts had shown that, over the long term, they will not be able to remain viable.

"The departments of Education and Treasury have been working for a while for solutions to districts like Buena Vista and Inkster that are no longer financial viable or sustainable and figure out a pathway to getting those kids to new learning environments," Mr. Pavlov said.

The bills, he said, would allow the state to intervene in such districts earlier than it can now, in part by improving reporting requirements, but also better ensuring that when districts submit deficit elimination plans, they follow through with them.

Mr. Flanagan told the Appropriations subcommittees that his preference would be to change to county-wide districts. The shift, he said, would ease some of the wild population shifts that some districts have seen.

Sen. John Pappageorge (R-Troy) urged him to come back to the Legislature with a plan.

"You guys are the smartest guys in town," Mr. Pappageorge said. "Why don't you give us a county system to look at. ... Just do it and give us a shot at trying to help you."

And Rep. Terry Brown (D-Pigeon) said the current list of deficit districts shows the state does not have a problem with small districts. "Look at the deficit districts, very few of those are the small schools," he said.

Instead, Mr. Brown questioned whether duplication was more of a driver of financial problems.

And Mr. Pappageorge indicated skepticism that the plan would work across the state.

"Oakland County has a population greater than 11 states and a GDP greater than 17 states," he said. "It's not going to work there."

Mr. Flanagan quipped after the meeting, "If Oakland County's too big, we should make them a state."

Mr. Flanagan also rejected the assertion by Sen. Bruce Caswell (R-Hillsdale) that there should be an investigation, beyond the financial review, into Buena Vista's actions.

The district lost funding this school year in part because the Department of Education had to attach some of its school aid funds to recapture payments it made toward a program for incarcerated youth that had moved to a charter school.

"So in this particular case we seem to have some factually impaired people," Mr. Caswell said, questioning how the department was allowed to collect payments for students no longer in its district.

Dan Hanrahan, director of the Office of State Aid and School Finance, said the district was paid not for the students, but for the program itself through a categorical. The funds, he said, were automatically renewed unless the district notified the state the program had been canceled, which it did not.

Mr. Caswell argued the state or the intermediate school district, which audits pupil counts, should have known the students were not there, but he also questioned whether there should be a fraud investigation regarding the district not telling the state it did not have the program.

Mr. Flanagan said after the meeting that he had seen no evidence of fraud.

"I don't think it was fraud, but I don't like the idea that they're not responsible for it," he said of local district officials.

And Mr. Flanagan said in some part the state needs to be sure it is providing enough funding to school districts, particularly with new standards they are being expected to adopt.

That, apparently, was not an area Mr. Pappageorge was ready to cede to the department as experts.

"There's just so much fuzz in this thing it's frustrating," he said of the Common Core State Standards that have been adopted by the State Board of Education but blocked from implementation in the most recent budget. "We're just being too fuzzy on a very important issue."

"It's not fuzzy. We've had the Common Core in place for three years," Mr. Flanagan countered before Mr. Pappageorge cut him off, urging him to keep discussion to the county-wide district plan during the meeting and address the Common Core "offline".

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