

School District Early Warning Overview

April 30, 2015

House Bill 4325
Budgetary Assumption Reporting

School Districts and Charter Schools with Fund Balances less than 8% are subject to Budgetary Assumption Reporting

July 7th

District/Charter budget assumptions due to CEPI (Student Count/Foundation Allowance/Expenditures per Pupil)

House Bill 4325 Early Warning

Pre-Deficit

If district/PSA determine that conditions of financial stress, a deficit, or conditions indicating a potential financial emergency **shall** notify State Supt. and request technical assistance – Notice also given to ISD/Authorizing Body



MDE and Treasury to provide technical assistance

Periodic Financial Reporting

If State Treasurer determines that potential financial stress may exist within district/PSA or that a deficit is likely to arise in the current or following two school fiscal years or if district/PSA may be unable to meet their financial obligations based on a number of factors

House Bill 4325
Periodic Financial Reporting Factors

- 1. District/PSA failed to pay a required obligation once or more in a fiscal year**
- 2. Expending tax revenues for unauthorized purpose or failure to distribute tax revenue as required by law**
- 3. Decrease in pupil enrollment by 5% or more in a single year or by 15% over three consecutive years and the district/PSA did not reduce expenditures in a manner that addresses the decline in enrollment.**
- 4. Increase in expenditures per pupil by 5% or more as compared to the prior fiscal year**
- 5. Reported budget assumptions do not achieve 96% of actual enrollment**
- 6. Reported budget assumptions do not achieve 98% of actual foundation allowance**
- 7. District has applied for an Emergency Loan**

Current Deficit Elimination Process with MDE

If district/PSA is unable to avoid deficit through technical assistance and periodic reporting – DEP process with MDE would begin

District/PSA incurs deficit

- 1) Final budget Amendment – June 30th
 - 2) Completion of Audit – November 15th
- MDE is notified which initiates the deficit elimination process

Deficit Elimination Plan

District/PSA submits School Board approved Deficit Elimination Plan to MDE. MDE reviews plan for reasonableness and approves or disapproves the plan based on the ability of the district/PSA to implement the plan.

State Supt. has discretion regarding duration of the plan – typically 5 years has been the max with a few exceptions

Developing an approvable DEP may take multiple attempts and the time it takes to complete varies; however, MDE sets deadlines (typically 30 days) for each revision

Current Deficit Elimination Process with MDE

Local Control

The local School Board is responsible for ensuring implementation of the approved DEP and achieving the financial goals established by School Board

Revised DEP's

The local School Board is responsible for revising the DEP and obtaining MDE approval of the revised plan

Monthly Budgetary Control Reports

District/PSA submit monthly budgetary control reports to MDE to demonstrate compliance with approved DEP

MDE may withhold State School Aid for non-compliance or non-submittal of DEP

If district is unable to eliminate deficit through current DEP process, State Supt. may initiate PA 436; however, at that point the financial distress is dire and the district's deficit has grown significantly

House Bill 4327 Enhanced Deficit Elimination Plans

State Treasurer may require Enhanced Deficit Elimination Plan
at any time financial stress is evident

←
Pre-deficit/periodic
reporting

Rapidly deteriorating
financial conditions

→
Current DEP
process with MDE

The goal of the EDEP is to allow the State Treasurer to intervene as necessary with districts experiencing financial stress before the deficit becomes unmanageable and PA 436 is necessary

Key Features of EDEPs

Assistance from the Department of Treasury and other State Departments/Agencies

1) Financial Recovery Agreement

- Essentially a contract with School Board to lay out how the deficit will be eliminated – functions like consent agreement under PA 436
- May include Financial and Operating Plan – similar to PA 436
- May require the district to retain consultants and/or hire business office staff

2) Education Plan

House Bill 4329
Enhanced Deficit Elimination Plans/Emergency Manager

Emergency Manager

If district does not comply with EDEP, State Treasurer may declare financial emergency and request the Governor appoint an Emergency Manager