



{ISD Option for Early Warning Assistance}

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Objectives

- Discuss the ISD option for an administrative review
- Identify the alternatives to an administrative review
- Share the approach and tools that Oakland Schools has developed

Public Act 109

“If the state treasurer declares... that the potential for fiscal stress exists... the governing body...may choose to establish a contract with an intermediate school district to perform an administrative review”

What is Fiscal Stress?

- Defined in PA 109
 - Unable to meet short or long-term obligations
 - Meeting any of the “triggers” as listed in PA 436 of 2012 (the Local Financial Stability and Choice Act) – here are a few highlights:
 - Creditor indicates non payments > 6 months of amounts more than \$10,000 or 1% of revenue (greater of)
 - Late payments to retirement system
 - Default on bond payments
 - Late filed audit
 - Breach of DEP
 - Court ordered additional tax levy
 - Other

What is Fiscal Stress?

- Treasury is trying to identify other indicators, such as:
 - Fund balance as a percent of revenue (5 year trend)
 - Revenues Over Expenditures (5 year trend)
 - Accounts payable over Revenue (5 year trend)
 - Days of cash on hand (5 year trend)
 - Enrollment trends (8-10 year trend)
 - Expenditures per pupil (5 year trend)
 - Retirement cost as a percent of revenue (5 year trend)
 - Tax burden per citizen (5 year trend)
 - Population trends (8-10 year trend)
 - Credit rating
 - Schools of Choice
- ***Note – these indicators have not yet been approved***

How Will Treasury Determine the Potential for Fiscal Stress?

- State treasurer may declare that the potential for fiscal stress exists if:
 - An operating deficit may arise during the current school fiscal year or the following 2 school fiscal years
 - A school district may be unable to meet its financial obligations while also satisfying the school district's obligations

How Will Treasury Determine the Potential for Fiscal Stress?

Based on the following factors

- a) Financial data or other information submitted to a state department or agency
- b) Financial data or other information included within an audited financial statement
- c) Financial data or other information provided to a state department, agency, or authority in connection with a request to issue bonds, notes, or other debt obligations
- d) Financial data or other information included within a recommended budget, budget, or general appropriations act
- e) Financial data or other information provided to a state department, agency, or authority by an officer, employee, contractor, or agent of the school district
- f) For a school district, data relating to pupil enrollment
- g) For a school district, financial data or other information provided to the department or department of treasury by the intermediate school district in which the school district is located

How Will Treasury Determine the Potential for Fiscal Stress?

Treasury intends to also use a stress test which will score multiple factors

Public Act 113

If a district does not satisfy Treasury, the district may be required to submit an enhanced deficit elimination plan. If Treasury is not satisfied with the level of compliance, they may declare a financial emergency and recommend the governor immediately appoint an Emergency Manager

Alternative to Administrative ISD Review

- Treasury can then require the District to submit “periodic financial Status reports” for up to 4 years.
- If a school district is required to submit “periodic financial status reports”, the school district shall do all of the following:
 - Submit a periodic financial status report in the form and manner and on the periodic basis prescribed by treasury, after approval by the governing body of the school district.
 - Transmit a copy of each periodic financial status report required under this section to the members of its governing body.
 - Provide treasury with other financial data or information relating to the financial conditions of the school district, intermediate school district, or public school academy as requested by the department of treasury.
 - Allow the department of treasury to examine financial records and books of account of the school district.
 - Promptly and fully provide the assistance and information necessary and properly requested treasury in the exercise of the department of treasury’s duties under this section.

ISD Option

- At a minimum, includes a review of 11 required areas specified in the statute
- The parties to the contract may request Treasury to waive one or more of the 11 required areas
- Must be completed within 90 days of the contract being executed
- Requires the district implement at least one recommendation from the review within one year
- The ISD submits quarterly reports regarding the district's progress in implementing the recommendations for up to two years

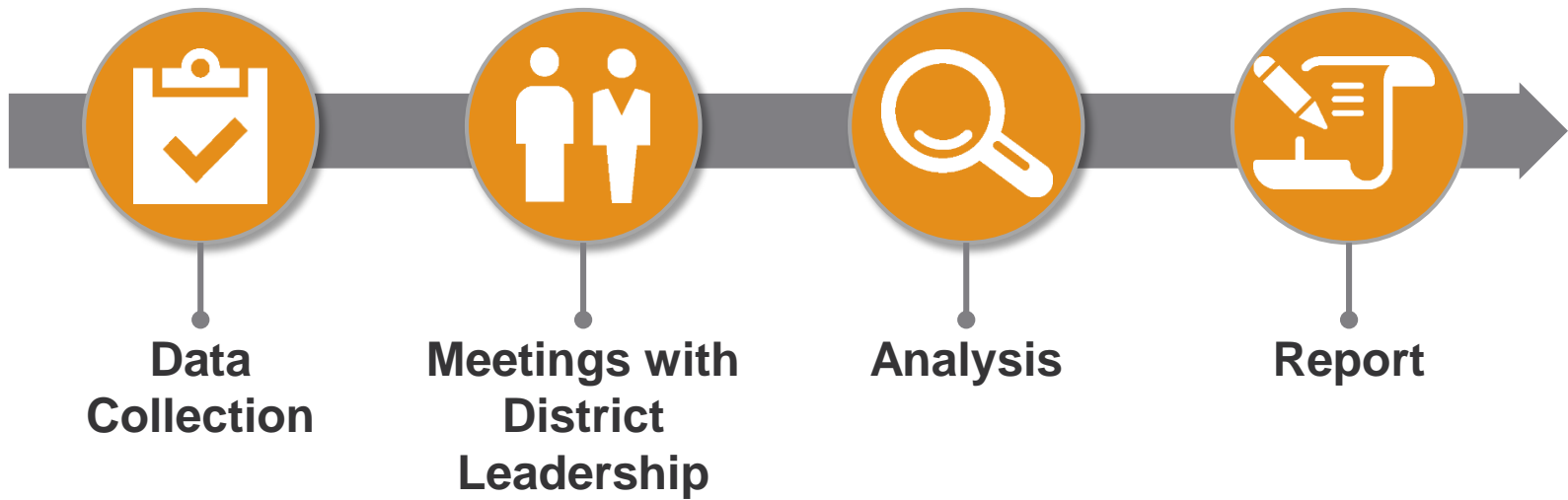
Agreement between ISD and LEA

- Contract with ISD within 60 days of notification from State
- Oakland Schools Agreement for Administrative Review of Financial Status – key elements include:
 - Recommendations to avoid a deficit
 - Present at public meeting of governance board
 - Submit recommendations to Departments of Ed and Treasury
 - May communicate findings unrelated to recommendations to Superintendent
 - Quarterly reports from ISD to Department of Treasury regarding implementation status of recommendations

Oakland Schools Scope of Review

- Staffing levels*
 - Wages and benefits*
 - Non-instructional costs*
 - Sub, workers comp and unemployment costs
 - Current and future costs of existing bargaining agreements
-
- School building capacity utilization
 - Enrollment projections
 - Deferred maintenance & capital investment
-
- Financial practices
 - *State and federal grants (not in statute)*
 - *Any other revenue or expenditure w/ material impact (not in statute)*
-

Oakland Schools - Components of Review



Oakland Schools Data Collection

- District Data Request List (*in template*)
- District Questions (*in template*)
- Website
- Data analytics tools (Munetrix and Eidex approved for section 102d funding)
- ISD datasets
- MISchool Data website
- MDE website
- Peer district websites

Financial Practices – Sample Items

1	Review budget adopted for June 30, _____ year end and determine that the original budget did not adopt a deficit (overall deficit) budget
2	Review budget amendments filed during the June 30, _____ year and determine the budget amendments did not indicate a deficit fund balance for June 30
3	To the extent a deficit budget was adopted, verify the Board of Education (or other district representative) notified the Michigan Department of Education that a deficit was expected
4	Verify that the budget contained within the district's financial system matches the Board adopted budget
5	Verify that the budget contained within the district's financial system matches the budget in MEG

Wages – Sample Items

10	Review schedule of employees limited to the hours they work as a result of receiving retirement funds through ORS (requested in 3a)
11	Review the number of part time employees by classification that qualify for ACA (requested in 3a)
12	Review the compensated absence accrual by bargaining unit for the last 3 years (requested in 3a)
13	Review the average number of absences during the prior fiscal year for the following classifications: teacher, bus driver, paraprofessionals / instructional aides (requested in 3a)
14	Review the amount paid for substitute teachers for the prior 3 fiscal years

Facilities – Sample items

3	Is the district renting facility space from others? If so, identify building and purpose
4	Is the district renting out district-owned facilities / space? If so, identify building and purpose and the rental income for the last 3 years
5	Are custodial services included in the rent charged to outside organizations?
6	Identify all closed / unused district-owned facilities
7	Identify whether there a disposition plan in place for unused facilities

Oakland Schools Approach

- Statute allows for full cost recovery
- Oakland Schools intends to conduct a full and comprehensive review, given the 90 day time period identified in the statute
- At Oakland Schools, the review is done within the OS Cost Recovery Field Services division
- OS will be using staff, contractors, and consultants for this project-based work (accessing the critical shortage list would be very helpful)
- The ISD will finalize the scope of the review with each district before contract is executed

Oakland Schools Deliverables

- Restore the fund balance to a level equal to or greater than 5% of revenue (revenue as defined by the State Treasurer) within no more than five years
- Oakland Schools will issue one recommendation regarding annual net income in the general fund, with a menu of all the potential actions identified through the administrative review

Factors to Consider

- Number of concurrent administrative reviews
- District size and capacity
- Quality and accessibility of data provided by the district
- Variance in services provided by district
- The existence of a recent facility condition assessment and physical asset inventory (within the prior 24 months)

Key Takeaways

- If a district does not satisfy Treasury, the district may be required to submit an enhanced deficit elimination plan. If Treasury is not satisfied with the level of compliance, they may declare a financial emergency and recommend the governor immediately appoint an Emergency Manager
- Oakland Schools developed tools:
 - Agreement
 - Template, including data request, district questionnaire, and action items to be completed in administrative review

Questions



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{Thank You!}

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