

How will Treasury make the determination of potential for fiscal stress?

State treasurer may declare that the potential for fiscal stress exists if:

- An operating deficit may arise within a school district, intermediate school district, or public school academy 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 or abilities to provide public educational services in a manner that complies with this act, the state school aid act of 1979, and applicable rules.

Based on the following factors

- a) Financial data or other information submitted by the school district, intermediate school district, or public school academy to a state department or agency.
- b) Financial data or other information included within an audited financial statement of the school district, intermediate school district, or public school academy.
- 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, including, but not limited to, information relating to a request for a loan under the emergency municipal loan act, 1980 PA 243, MCL 141.931 to 141.942.
- d) Financial data or other information included within a recommended budget, budget, or general appropriations act of the school district, intermediate school district, or public school academy.
- 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, intermediate school district, or public school academy.
- f) For a school district, data relating to pupil enrollment, including, but not limited to, residents of other school districts enrolled in the school district and residents of the school district enrolled in another school district or in a public school not operated by the school district.
- 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
 - Treasury intends to also use a stress test which will score multiple factors (see attachments which are drafts of the stress test documents)

DRAFT SUBJECT TO FINAL APPROVAL

Indicator Scoring

| INDICATOR | DESCRIPTION | MAX SCORE |
|---|--|-----------|
| Indicator 1: Fund Balance % of Revenues | 3 Points= Fund Balance % of Revenues decrease by greater than 10% 2 Points= Fund Balance % of Revenues decrease 7% to 10% 1 Points= Fund Balance % of Revenues decrease 5% to 7% 0 Point= Fund Balance % of Revenues decrease less than 5 % | 3 |
| Indicator 1 Continued: Previous year: Fund Balance % of Revenues | 3 Points= Fund Balance % of Revenues decrease by greater than 10% 2 Points= Fund Balance % of Revenues decrease 7% to 10% 1 Points= Fund Balance % of Revenues decrease 5% to 7% 0 Point= Fund Balance % of Revenues decrease less than 5 % | 3 |
| Indicator 1 Continued: Two Years Previous: Fund Balance % of Revenues | 3 Points= Fund Balance % of Revenues decrease by greater than 10% 2 Points= Fund Balance % of Revenues decrease 7% to 10% 1 Points= Fund Balance % of Revenues decrease 5% to 7% 0 Point= Fund Balance % of Revenues decrease less than 5 % | 3 |
| Indicator 2: Revenues / Expenditures | 4 Points= Revenues exceed Expenditures for four of last four years 3 Points= Revenues exceed Expenditures for three of last four years 2 Points= Revenues exceed Expenditures for two of last four years 1 Point= Revenues exceed Expenditures for one of last four years 0 Point= Revenues exceed Expenditures for zero of last four years | 4 |
| Indicator 4: Days Cash on Hand (Cash/ 360 Day Average Expenditure) | 2 Points= Days Cash on Hand less than 15 1 Point= Days Cash on Hand greater than 15, but less than 30 0 Point= Days Cash on Hand greater than 30 | 2 |
| Indicator 5: FTE Enrollment Trend | 4 Points= FTE enrollment trend negative for four of last four years 3 Points= FTE enrollment trend negative for three of last four years 2 Points= FTE enrollment trend negative for two of last four years 1 Point= FTE enrollment trend negative for one of last four years 0 Point= FTE enrollment trend negative for zero of last four years | 4 |
| Indicator 6: Change in Expenditure per Pupil | 2 Points= Increase in expenditure per pupil for two of last three years 1 Point= Increase in expenditure per pupil for one of last three years 0 Point= Increase in expenditure per pupil for zero of last three years | 2 |
| TOTAL | Score > 14.7 (70% of total points) | 21 |

| | Define Metric | Account | Fund | Internal Measurements |
|---|--|---|------|--|
| Indicator 1: Fund Balance % of Revenues Five Year Trend | The excess of general fund over its revenues for meeting future school district program operations | Fund Balance | 11 | A key measure of a district's fiscal health is the size of the fund balance relative to the total annual revenues. Fund balance is needed for cushion against unexpected revenue downturns or emergencies. |
| | | Revenue | 11 | |
| Indicator 2: Revenues / Expenditures Five Year Trend | Measures whether revenue exceeds expenditure. A result < 1 indicates expenditure exceeded revenue for the fiscal year. | Revenue | 11 | A measurement of whether revenue collected is exceeding expenses. A strong indicator of a district's financial health as it will show whether cash flow is positive or negative while meeting all current obligations. |
| | | Expenditure | 11 | |
| Indicator 3: Accounts Payable/ Revenues Five Year Trend | Outstanding accounts payable over revenues. | Accounts Payable | 11 | The relationship between outstanding accounts payable and revenues collected. A higher percentage may show a district's difficulty in paying current obligations. This measurement is related to the Cash on Hand indicator, demonstrating a district's liquidity. |
| | | Revenue | 11 | |
| Indicator 4: Cash on Hand Cash/360 day Average of Expenditures Five Year Trend | Measures how many days' of cash the district has on hand, on average, at the end of each month to cover expenditures. Daily expenditures are calculated as the total expenditures (General Fund) over 360 days. Days' cash on hand is the average ending cash and investments divided by average daily expenditures. | Cash | 11 | Demonstrates a district's ability to meet unexpected changes in revenues and/or expenditures. |
| | | Expenditure / 360 | 11 | |
| Indicator 5: Enrollment Trend 8 - 10 Year Trend | Percentage change in enrollment over specific time period | Michigan Student Data System- Full Audit FTE. For LEAs & PSAs= FALL TOT_SPEC + FALL FTE_GT_FT For ISDs= FALL ISD_GT | | Enrollment changes are reflective of demographic changes and choice within the district. This trend will affect the revenues and expenditures, posing potential challenges for the district. |

School Districts

Fiscal Stress Indicators

General Fund

Draft - Subject to Final Approval

| | Define Metric | Account | Fund | Internal Measurements |
|---------------|--|--|---|--|
| Indicator 6: | Expenditures per Pupil Five Year Trend General fund expenditures per pupil | Expenditure | 11 | Evaluates a district's financial operations to evaluate how consistently they manage resources. To determine the level of funding per pupil which can be compared to other districts. |
| | | Pupil FTE Count | Michigan Student Data System- Full Audit FTE. For LEAs & PSAs= FALL TOT_SPEC + FALL FTE_GT_FT For ISDs= FALL ISD_GT | |
| Indicator 7: | Retirement Cost Five Year Trend Evaluates the overall cost per FTE or per pupil of the retirement expense as a percent of revenue | Retirement expenses | | Measures the level of retirement spending per pupil or FTE as percent of revenue. Can compare to enrollment trends and changes in retirement spending. |
| | | Revenue | 11 | |
| Indicator 8: | Tax Burden per Local Citizen Five Year Trend Tax burden per citizen | Taxes | | Measure the effect the school related taxes and other local taxes have on citizens. For example, declining property value can lead to an increase in tax rates in order to generate the same amount of revenue. This would increase the tax burden for citizens. |
| | | Citizen Count | | |
| Indicator 9: | Population Trend 8 - 10 Year Trend Percentage change in population over specific time period | Citizen Count | | Demographic changes e.g. birth rate, in the population can affect enrollment. |
| Indicator 10: | Credit Rating Current credit rating provided by the major rating agencies, S&P, Fitch, and Moody's. Credit rating from one of the major rating agencies | | | An indicator of the financial health of a district. Evaluates the history of borrowing and demonstrates the ability of a district to under take borrowing and repay its obligations. |
| Indicator 11: | School of Choice To evaluate the number of non-residents and residents enrolled at specified school district | Refer to MI School Data website- Non Resident Status reports | | Helps gauge potential enrollment volatility in the district. Evaluates how many students are residents of the district. |