

THE REVISED SCHOOL CODE (EXCERPT)
Act 451 of 1976

380.1220 Adoption of or operation under deficit budget; prohibition; requirements; reports; deficit elimination plan; approval; likelihood of recurring operating deficits or recurring financial stress; failure to eliminate deficit; enhanced deficit elimination plan required; enhanced monthly monitoring report; definitions.

Sec. 1220. (1) A school district, intermediate school district, or public school academy shall not adopt or operate under a deficit budget, and a school district, intermediate school district, or public school academy shall not incur an operating deficit in a fund during a school fiscal year. If a school district, intermediate school district, or public school academy has an existing deficit fund balance, incurs a deficit fund balance in the most recently completed school fiscal year, or adopts a current year budget that projects a deficit fund balance, all of the following apply:

(a) The school district, intermediate school district, or public school academy shall notify the superintendent of public instruction and the state treasurer immediately upon the occurrence of the circumstance. A school district shall provide a copy of the notice under this subdivision to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall provide a copy of the notice under this subdivision to the authorizing body of the public school academy.

(b) Within 30 days after making notification under subdivision (a), the school district, intermediate school district, or public school academy shall submit to the superintendent of public instruction in the form and manner prescribed by the department an amended budget for the current school fiscal year and a deficit elimination plan approved by the board of the school district or intermediate school district or board of directors of the public school academy, with a copy to the state treasurer. A school district shall transmit a copy of the amended budget and the deficit elimination plan to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall transmit a copy of the amended budget and the deficit elimination plan to its authorizing body.

(c) The department may withhold and release some or all of the money payable to the school district, intermediate school district, or public school academy as provided under section 102(1) of the state school aid act of 1979, MCL 388.1702.

(d) The superintendent of public instruction may require a deficit elimination plan to include an academic plan for the school district, intermediate school district, or public school academy.

(e) After the superintendent of public instruction approves a school district's, intermediate school district's, or public school academy's deficit elimination plan, the school district, intermediate school district, or public school academy shall post the deficit elimination plan on the school district's, intermediate school district's, or public school academy's website.

(2) The following reporting requirements apply for the purposes of this section and section 1219:

(a) Not later than March 1 of each year, the department shall prepare a report of deficits incurred or projected by school districts, intermediate school districts, and public school academies in the immediately preceding fiscal year and the progress made in reducing those deficits and submit the report electronically, by mail, or in person to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 state school aid appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director. The department also shall submit quarterly interim reports electronically, by mail, or in person concerning the progress made by school districts, intermediate school districts, and public school academies in reducing those deficits to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 state school aid appropriations, the house and senate fiscal agencies, the state treasurer, and the state budget director.

(b) Not later than March 1 of each year, the state treasurer shall prepare a report of school districts, intermediate school districts, and public school academies that were required under section 1219 to submit periodic financial status reports in the immediately preceding state fiscal year or required under this section to submit an enhanced deficit elimination plan in the immediately preceding state fiscal year, and the progress made in adhering to that plan, and submit the report electronically, by mail, or in person to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 state school aid appropriations, the house and senate fiscal agencies, the department, and the state budget director. The state treasurer also shall submit quarterly interim reports electronically, by mail, or in person concerning school districts, intermediate school districts, and public school academies that are subject to periodic financial status reports or are under an enhanced deficit

elimination plan to the standing committees of the legislature responsible for K-12 education legislation, the appropriations subcommittees of the legislature responsible for K-12 state school aid appropriations, the house and senate fiscal agencies, the department, and the state budget director.

(3) A school district, intermediate school district, or public school academy required to submit a deficit elimination plan under this section shall submit to the superintendent of public instruction and the state treasurer a monthly monitoring report on revenue and expenditures in a form and manner prescribed by the department and shall post these reports on its website. A school district shall transmit a copy of each report under this subsection to the intermediate superintendent of the intermediate school district in which the school district is located. A public school academy shall transmit a copy of each report under this section to the authorizing body of the public school academy. A school district may contract with its intermediate school district or another entity to provide the monthly monitoring report.

(4) If a school district, intermediate school district, or public school academy is required to submit a deficit elimination plan under this section, and the deficit elimination plan is approved by the department, the superintendent of public instruction may continue allotment and payment of funds as provided under section 102 of the state school aid act of 1979, MCL 388.1702. When approving a deficit elimination plan, the superintendent of public instruction shall establish the period of time within which a school district, intermediate school district, or public school academy must eliminate its deficit and may set special conditions that the school district, intermediate school district, or public school academy must meet while the deficit elimination plan is in effect. After the department approves a school district's, intermediate school district's, or public school academy's deficit elimination plan under this subsection, the school district, intermediate school district, or public school academy shall post the deficit elimination plan on the school district's, intermediate school district's, or public school academy's website. The requirements of this section relating to a deficit elimination plan do not apply to a school district, intermediate school district, or public school academy if the school district, intermediate school district, or public school academy is required to submit an enhanced deficit elimination plan under subsection (5).

(5) If, based upon information included in a periodic financial status report required under section 1219, a deficit elimination plan required under this section, or a request by the superintendent of public instruction, the state treasurer determines that a school district, intermediate school district, or public school academy is subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress likely to result in recurring operating deficits or recurring financial stress within the school district, intermediate school district, or public school academy, the state treasurer may require the school district, intermediate school district, or public school academy to submit an enhanced deficit elimination plan in the form and manner determined by the department of treasury. If the deficit for a school district, intermediate school district, or public school academy that is subject to a deficit elimination plan has not been completely eliminated within 5 years after it submitted its initial deficit elimination plan, the state treasurer shall require the school district, intermediate school district, or public school academy to submit an enhanced deficit elimination plan under this subsection. An enhanced deficit elimination plan must provide for the resolution of the deteriorating financial circumstances, persistently declining enrollment, or other indicators of recurring operating deficits or recurring financial stress and is subject to approval by the state treasurer. As a condition of approving the enhanced deficit elimination plan, the state treasurer may require a school district, intermediate school district, or public school academy required to submit an enhanced deficit elimination plan under this section to enter into a financial recovery agreement with the state treasurer. A financial recovery agreement may provide for, but is not limited to, all of the following:

- (a) Assistance and guidance from the department of treasury and other state departments and agencies.
- (b) A financial and operating plan for the school district, intermediate school district, or public school academy.
- (c) The appointment of a local auditor or inspector, or both.
- (d) Remedial measures or other action under this act necessary to address the financial circumstances of the school district, intermediate school district, or public school academy.
- (e) The required retention by the school district, intermediate school district, or public school academy of a consultant or 1 or more other experts for the purpose of assisting the school district, intermediate school district, or public school academy to achieve the goals and objectives of the financial recovery agreement.

(6) Before a school district, intermediate school district, or public school academy submits an enhanced deficit elimination plan to the state treasurer under subsection (5), the board of the school district or intermediate school district or board of directors of the public school academy shall approve the plan. If a school district, intermediate school district, or public school academy is required to submit an enhanced deficit elimination plan under subsection (5), some or all of the money payable to the school district, intermediate school district, or public school academy under the state school aid act of 1979 may be withheld

by the state treasurer and released as provided under section 102(3) of the state school aid act of 1979, MCL 388.1702. When approving an enhanced deficit elimination plan, the state treasurer may establish the period of time within which a school district, intermediate school district, or public school academy must eliminate its deficit and may set special conditions that the school district, intermediate school district, or public school academy must meet while the enhanced deficit elimination plan is in effect.

(7) To assure greater coordination and effective partnerships in the development and implementation of an enhanced deficit elimination plan under subsection (5), when administering subsections (5), (6), and (9), the department of treasury shall consult with all of the following:

(a) The department.

(b) The school district, intermediate school district, or public school academy required to submit an enhanced deficit elimination plan under subsection (5).

(c) For a school district required to submit an enhanced deficit elimination plan under subsection (5), the intermediate superintendent of the intermediate school district in which the school district is located.

(d) For a public school academy required to submit an enhanced deficit elimination plan under subsection (5), the authorizing body of the public school academy.

(8) After the state treasurer approves an enhanced deficit elimination plan for a school district, intermediate school district, or public school academy, the school district, intermediate school district, or public school academy shall post the enhanced deficit elimination plan on the school district's, intermediate school district's, or public school academy's website.

(9) If a school district, intermediate school district, or public school academy is required to submit an enhanced deficit elimination plan under subsection (5), the school district, intermediate school district, or public school academy shall submit to the superintendent of public instruction and the state treasurer an enhanced monthly monitoring report on revenue, expenditures, cash flow, debt, other liabilities, assets, budget amendments, pupil membership, and other data relating to the finances of the school district, intermediate school district, or public school academy in a form and manner prescribed by the department of treasury and shall post these reports on its website.

(10) As used in this section:

(a) "Authorizing body" means an authorizing body for a public school academy under this act.

(b) "Deficit elimination plan" means a plan required under this section for the elimination of a deficit that sets forth actions to be taken to eliminate the deficit within the time period prescribed by the department.

(c) "Deficit fund balance" means that term as defined in the "Michigan Public School Accounting Manual" published by the department.

(d) "Enhanced deficit elimination plan" means measures required by the state treasurer under this section to address the financial conditions within a school district, intermediate school district, or public school academy and resolve any deficit within the time period prescribed by the state treasurer.

History: Add. 2015, Act 111, Imd. Eff. July 7, 2015;—Am. 2020, Act 290, Imd. Eff. Dec. 29, 2020.