

# Michigan's Emergency Manager Law

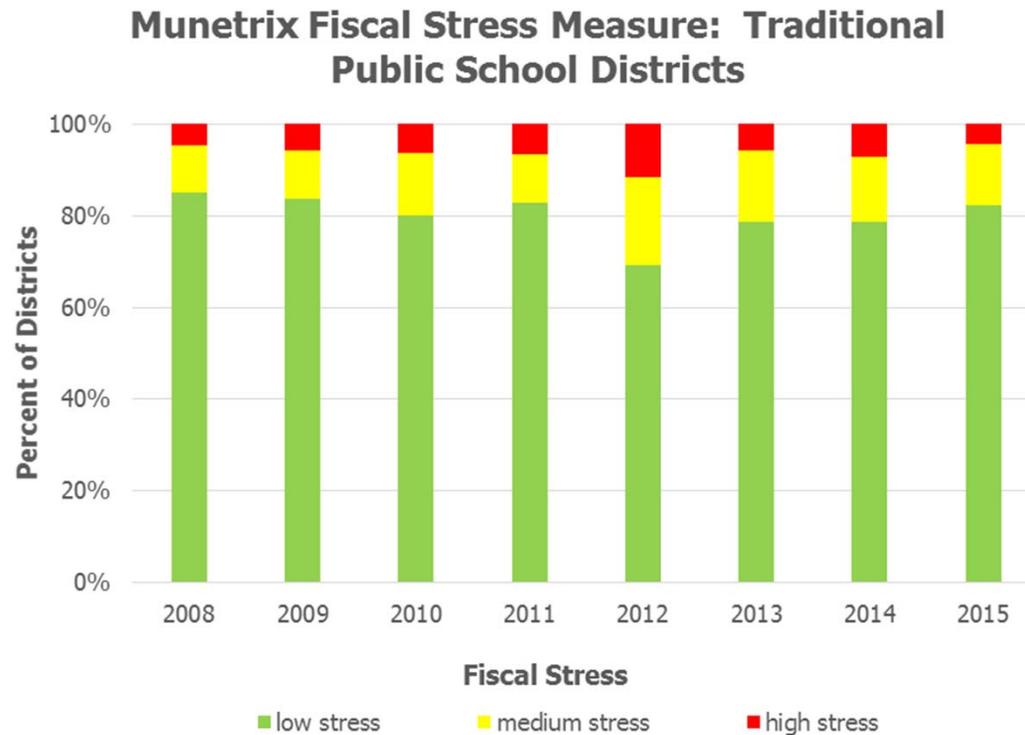
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# Fiscal Stress Increased Through 2012

## *Signs of Improvements Since*



# Fiscal Distress in Michigan Schools

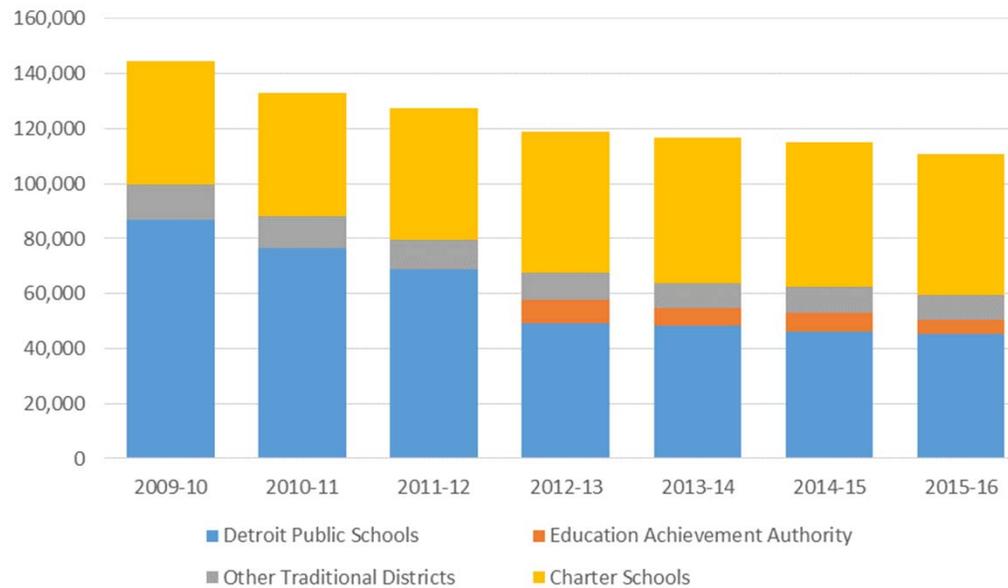
- Deficit districts – from 27 districts (2008) to 48 districts (2011)
  - Hovered around 50 districts from 2011 to 2013
  - Increased to 58 districts (2014) before falling to 41 (2015)
- Five school districts operating under PA 436
  - Detroit, Highland Park, and Muskegon Heights - emergency managers
  - Benton Harbor and Pontiac - consent agreements
- Additionally, two districts (Buena Vista and Inkster) dissolved in 2013 as a state response to their fiscal problems

# Some Key Differences: Schools vs Cities

- Nature of the problem
  - For local governments, problem **EXCLUSIVELY** financial
  - For school districts, almost always dual crisis – financial **AND** academic
- Operating environment
  - Local governments don't face competition in service delivery
  - Nearly all distressed districts operate in a competitive market (for students and operating resources)
- Finances fundamentally different
  - School operating revenues highly centralized at state level

# Fiscal Instability: Detroit Enrollment Trends

**Resident Student Enrollment by Type of District, 2009-10 to 2015-16**



*DPS Experienced a 50% Enrollment (Revenue) Decline over 7 Years*

# Key Observations

- Financial solutions involve additional state resources
  - Emergency loans
  - State assumption of legacy debts
- When additional state resources are provided there is less funding available to share with other districts statewide
- Managers unable to stabilize enrollment, while some decisions exacerbate enrollment decline
- Academic problems unaddressed by emergency management

# Addressing Academic Failure

- Grounds for state intervention are strictly financial
  - Emergency manager's priority is to fix financial problem; training and experience as financial manager
  - Goal: Short-term budget balance
- Manager assumes role of elected board and school professionals
  - Law requires development and implementation of education plan, but manager is not an educator or school administrator
  - Financial decisions most often negatively affect education programs
- Failure to address academic failure can result in "death spiral"
- Bottom line: Require different solutions and timing

# Alternatives for School Districts

- State School Reform Office (2010)
  - Multiple interventions available – focus on academic failure
  - CEO option – currently used in Eastpointe Schools
  - Closure option - currently being discussed for lowest 5% schools
- “Early warning” system (2015)
  - Preemptive tool developed and administered by Dept. of Treasury
  - Projects fund balance for current and next two years
  - If “potential fiscal stress” exists, allow district to contract with ISD for administrative review

# Closing Thoughts

- Emergency management has not worked in Detroit (financial or academic)
- While it may help address immediate fiscal distress, emergency management not a solution to long-standing academic problem
- Shift away from emergency management to other forms of state interventions
- Early warning system effective?

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