



Hazel Park School District

Focusing on the Future

Amy Kruppe, Ed.D.

Superintendent

Ford Administration

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MEMORANDUM

July 17, 2017

To: Mr. Paul Connors, Director, School Fiscal Accountability Division, Michigan Department of Treasury

From: Dr. Amy Kruppe, Superintendent
Daniel Romzek, Assistant Superintendent of Business & Operations

CC: Board of Education Members, School District of the City of Hazel Park

Subject: Quarterly Report on Financial Recovery Agreement

We provide this quarterly update pursuant to Section 3 of the Financial Recovery Agreement (FRA), which requires quarterly reporting by the School District to you on the ongoing financial recovery efforts and remedial measures in process with the School District of the City of Hazel Park. This report covers the April 1 through June 30, 2017 period.

Pending Lawsuits or Other Legal Action

During the June 2017 quarter, the School District was named in a lawsuit (lawsuit copy attached), as follows:

- 1) Name of Plaintiff: Warren Consolidated Schools (WCS)
- 2) Name of Defendant(s): School District of the City of Hazel Park
- 3) Name of Court and Judge with Jurisdiction: Macomb County Circuit Court, Honorable James Maceroni, Case #2017-002271-CZ, filed June 22, 2017
- 4) Name of Attorney Representing School District: John Gierak, Clark Hill, SET/SEG Counsel TBD.
- 5) Cause of Action: This matter was originally litigated in Macomb County Circuit Court in 2011 (Case #2011-001862-CZ) and was dismissed without prejudice for exhaustion of potential administrative remedies. Case is related to WCS resident students enrolled in Hazel Park Schools through vendor alternative education program operated by vendor INVEST at a location within the WCS boundaries during the school years of 2008/2009 through 2012/2013. WCS has re-filed the case to reinstate the previous claims and capture claims that have arisen during the time when the administrative remedies were being exhausted.
- 6) Length of Time Pending: Less than 30 days.



- 7) Estimate of Budgetary Impact on the School District: Plaintiffs are seeking judgment in excess of \$4,500,000.00, representing their value of \$4,175,080.85 for state aid received by Hazel Park Schools, plus attorney fees.
- 8) Details of any Settlement Agreement: None at this time.
- 9) Applicable Insurance Coverage: SET/SEG Insurance Pool litigated this case in 2011 on behalf of School District. SET/SEG has earmarked up to \$100,000.00 towards defense of this matter but has verbally notified the School District that it will not indemnify.

Cash Flows and Budget to Actual Financial Reports Attached

We have submitted the monthly financial reports for the month ended June 30, 2017, in accordance with the monthly reporting requirements of the Financial Recovery Agreement. Included in this submission was the monthly cash flows report and monthly EDEP Report.

Budget Update

The School District completed the final amendment to the 2016/2017 General Fund budget and completed the preliminary 2017/2018 budgets. All budgets were reviewed and approved by Treasury on June 19, 2017 and subsequently approved by the Board of Education on June 19, 2017, in accordance with Section 4 of the FRA.

Sinking Fund & Capital Improvement Plan Update

During quarter ending June 30, 2017, the School District School District has bid out three sinking fund projects for completion during the summer of 2017. Two project awards have been approved by Treasury and the third project will be submitted to the Board of Education for award on July 17, 2017, followed by a request to Treasury to approve. A copy of the five-year facility plan was provided to Treasury in a previous quarterly update.

Capital Needs Funding Request for Edison MAX Center Program Update

The School District submitted a Capital Needs Application to Oakland Schools for Edison MAX School in December 2016, for the renovation and expansion of the Edison MAX Day Treatment Center, estimated at a total cost of \$11.9 million. A copy of the funding application and proposed facility plan for Edison MAX was submitted to Treasury in a previous quarterly report. The application received conditional approval by the Oakland Schools Board of Education on June 6, 2017, which approved the release of 15% of projected construction costs (up to \$1,785,900.00) for the purpose of developing construction drawings and specifications for the project. Upon 90% completion of construction drawings and specifications, Oakland Schools will engage an architectural/engineering firm to perform a cost validation peer review of the project. Once complete, a final recommendation for the project will be submitted to the Oakland Schools Board of Education for final project approval. The project development, cost validation, and subsequent board consideration will take place over the remaining months in the 2017 calendar year, in compliance with the established protocols for special education capital needs requests set by Oakland Schools. .

Please contact us if you have any questions or concerns regarding this quarterly update.