Pontiac School District restructures USD 10m emergency loan
By Gunjan Banerji
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Pontiac School District secured yesterday the approval of the Michigan Treasury to restructure a USD 10m emergency loan from the state, said Jeremy Sampson of the Treasury's office.

The terms of the loan will remain the same — it carries a 2.7% interest rate — but the district will only make interest payments for the next five years, before beginning to pay down the principal in 2022, Sampson said. A three-person panel on the emergency loan board approved the restructuring. This is the first school district to restructure a loan from the Local Emergency Assistance Loan Board, Sampson said.

"Restructuring the loan will allow us to preserve money while building and enhancing educational programs. During that time, we expect to grow enrollment, which in turn will bring in new funds for the district," said Cyndi Toupin, Director of Business Services for the district.

The district's enrollment has declined by 23% to approximately 4,368 in FY16 from 5,676 in FY12. Pontiac School District is one of five districts operating under Michigan's Public Act 436; the others are **Benton Harbor Area Schools**, **Detroit Public Schools** (DPS), Highland Park School District, and **Muskegon Heights School District**, according to the Treasury website. Public Act 436 has been met with local backlash since the **Flint** water crisis and amid DPS' restructuring, as reported.

"This is the purgatory of reform—[Michigan] is trying to give the school district some ability to right the ship," said Patrick O'Keefe, founder and CEO of a firm with his namesake.

Pontiac School District ended FY15 with a USD 33m general fund deficit, and a total net position that's USD 85m in the red, according to its FY15 financial statements. After an ongoing inability to match its revenues with its expenses, the district entered into a consent agreement with the State Treasurer. DPS, Highland Park, and Muskegon Heights had or have emergency managers.

Under the consent agreement, Pontiac partners with Oakland Schools to provide certain services, according to the district's FY15 financials. The nearby Oakland School District manages Pontiac's business office, technology services, and communications, a source familiar with the district said. The agreement has not yet resulted in cost savings, but the district has benefited by having access to a multitude of resources with Oakland School District, Toupin said.

Having school districts share services with neighboring school districts, or even dissolving them completely, has been one way that Michigan has addressed its most distressed schools.

The **State of Michigan** has made USD 252m in emergency loans to local municipalities, and has USD 137.7m outstanding, according to a report prepared by the Department of Treasury. Pontiac is also not the only district to run into trouble with making good on its emergency loan obligation to Michigan.

Taxpayers within **Buena Vista School District** boundaries, even after it was dissolved as an educational entity, twice voted down a tax that would have paid down the old district's emergency loan with the state, as reported.

The district has a total of USD 44.3m in short-term and long-term debt outstanding. The USD 19m in short-term debt consists of USD 5.7m in state aid notes and USD 13.9m in tax anticipation notes. The USD 25.3m in long-term debt consists of USD 11.3m in 2006 energy conservation bonds, USD 4m in Series 2014E refunding bonds, and a USD 10m emergency loan.

Moody's rates the district's general obligation bonds (GO) Caa2. A USD 2.4m tranche of Series 2006 GO bonds last traded on 1 April, 2016 at 95.6 yielding 5.5%, according to *Electronic Municipal Market Access*.

While the school district remains in distress, the **City of Pontiac** is nearing the end of its receivership.