

ELEMENTARY TO HIGH SCHOOL

When school districts fall into debt and can't get out

Students and communities often pay the price

by EMILY RICHMOND
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This story about school debt is part of the series [Districts in Debt](#), which examines the hidden financial pressures challenging American schools.

WHITMORE LAKE, Mich. — Whitmore Lake Road is a two-lane stretch of blacktop cutting through wide fields and dense woods. In the predawn hours, around a curve, the community's high school, a modern brick and glass edifice, beams out of the darkness. For the small, unincorporated community of 6,000 just north of Ann Arbor, the 12-year old building is a crown jewel — one that's all the more precious given how close it came to slipping away.

The public comes on weekends to swim in the competition-size pool, throw events in the recreation center and watch performances in the 700-seat theater. The school features geothermal heating and cooling, a high-tech computer lab and a two-story atrium.

In 2003, before the Great Recession, Whitmore Lake was like thousands of other school districts across the country. Its school



The atrium of Whitmore Lake High School, part of a nearly \$48 million capital campaign approved by voters in 2006. The district has struggled since then to pay off its construction debt. Credit: Ben Smith for The Hechinger Report

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buildings were outdated and overcrowded. The district relied on seven portable classrooms, and some teachers were assigned to teach in modified storage closets. But the district was also luckier than most: The community was expecting a large-scale housing development to be built across the road from the high school, bringing with it a potential enrollment bump and the extra state dollars that would follow the additional students. Voters approved nearly \$48 million in bonds for remodeling and renovating existing facilities, adding the pool complex and construction of the new high school that would hold 100 more students than the previous building.



The housing development never came. The recession hit, and the local tax base fizzled. By 2014, the district had just \$24,000 in the bank with a \$600,000 payment coming due for salaries, benefits and day-to-day operating expenses recalls Superintendent Tom DeKeyser. According to administrators, it also still owed about \$60 million for long-term bonds, and was relying on a state loan to help make the \$3.6 million in payments that would be due that school year. The district was basically using a second credit card with a better interest rate to pay off another credit card's debt.



“I can feel myself sweating just thinking about it,” DeKeyser said.

“When you gamble, you look for the best odds. There’s a lot more risk betting on a poorer district.”

Plenty of school district officials across the country likely feel the same way. Nationally, school district debt has grown substantially, from nearly \$323 billion in 2006 to \$443 billion in 2016, according to U.S. Census data. In Michigan, school districts’

long-term debt is just over \$13 billion, according to the state’s Treasury Department.

Taking on debt isn’t always bad. School districts must rely on the goodwill of their voters — and investors’ willingness to back construction bonds —

to undertake major capital projects. The school districts get cash up front to pay for immediate needs like a new building or renovations and agree to pay back the money over a fixed period of time, usually 20 years or more. Just like a homeowner taking out a mortgage, school district debt is an investment in the future.

Yet debt always involves some risk. Districts that can't generate additional dollars through enrollment growth or local taxes can end up so deep in debt, they can't climb out. And unlike an individual — who can default if their finances change — once a district has taken out a school bond, it must pay it back, even if the community falls on hard times. Districts can't default, and declaring bankruptcy is rarely an option; nationally, only six have done so in the last 60 years. Instead, school officials have to find the dollars somewhere, either by extracting it from local taxpayers or taking away resources from kids.



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In wealthier districts, voters are more likely to support requests for additional public dollars, said Rebecca Sibilia, founder and CEO of EdBuild, a nonprofit that advocates for fairer school funding. Conversely, districts that are already struggling financially often have a harder time convincing voters — as well as bond investors — to back them. “When you gamble, you look for the best odds,” Sibilia said. “There’s a lot more risk betting on a poorer district.”

An unfortunate gamble

Jill Henry, who graduated from Whitmore Lake High School in 1995, left a successful career teaching high school social studies in Wayne, Michigan, to return to her alma mater and help open the new high school in 2006. She was lured in part by the amenities and teaching tools that would come



with the brand-new school. She imagined buying a home in the new development and walking to work.

Jill Henry, director of instruction for Whitmore Lake Public Schools and a graduate, is grateful that her alma mater climbed back from the brink of deficit. "We were the underdog, and we rallied," Henry said. Credit: Ben Smith for The Hechinger Report

But instead of a boom, over the next few years Whitmore Lake found itself in a bust. In addition to the housing development falling through, the pharmaceutical company Pfizer, one of the region's major employers, pulled up stakes in Ann Arbor. Jobs were cut at nearby auto plants. Whitmore Lake's student enrollment began a precipitous decline, which only accelerated as the nationwide recession hit.

By the end of the 2013-14 academic year, Whitmore Lake had lost about 25 percent of its enrollment, dropping from 1,300 to 960 students. That meant less funding from the state to help cover the day-to-day operating expenses of the schools — including the new building. As a result, the district's finances began sliding toward deficit. Without a dramatic turnaround in its finances, Whitmore Lake officials predicted that the district was only a few years away from dissolution.

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Michigan is one of a dozen states that doesn't provide funding to build or maintain local school facilities. For districts without thriving businesses or strong home values to tax, it can be a struggle to generate revenue for capital costs. Even in states that allocate education funding for capital construction the money is typically a limited pot of funds rather than a guarantee. It's rationed according to the severity of the need. There is rarely enough to go around, and the need is great: **a 2016 report by school facilities advocates** argued that districts would need to spend \$46 billion more each year to provide "healthy and safe" learning environments for all students.

School district debt has grown from nearly \$323 billion in 2006 to \$443 billion in 2016, according to U.S. Census data.

Many districts in states that do not fund facilities, especially in rural areas, face a double whammy: **tighter finances following the Great Recession**, even as the rest of the economy has recovered, combined with falling enrollment. (Though student enrollment is expected to **increase by about 2 percent nationally** over the next decade, it's dropping and is likely to fall further still in 17 states, most of them concentrated in the Northeast.)

The crisis for districts like Whitmore Lake "has been 20 years in the making," said David Martell, executive director of Michigan School Business Officials, the state affiliate of a national educational association. The state cuts to education funding began long before the recession, and

districts have yet to recover, he added. “They’ve been doing more with less for a very long time,” Martell said.

Taking on more debt to pay the debt

In Whitmore Lake, it was a constant struggle to keep the district’s financial troubles from touching the classroom, district officials say. The district offered employees buyouts and didn’t fill vacancies. In the elementary school, art classes were cut. The middle school had to downsize its band program.

Jill Henry was briefly laid off, and wondered back then if she had made a mistake by tying her future to her old hometown. “It was a very uncertain time for everyone, personally and professionally,” Henry said.

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HIGHER ED

DEBT WITHOUT DEGREE: State cuts money to higher education while student costs skyrocket

Gaps in financial aid make the problem worse

by SARAH BUTRYMOWICZ and MEREDITH KOLODNER
August 11, 2017



Like many school districts in Michigan with capital debt, Whitmore Lake owed money not just to its investors but to the state, as well.

The Michigan Department of Treasury’s School Bond Loan Fund lends money to some districts to help structure their long-term bond payments. (This was the equivalent of Whitmore Lake getting a second credit card with the better interest rate.) Districts are put on a strict repayment schedule for both the bonds and the state’s loan. To take advantage of the fund, the state requires districts to get voter approval to be taxed by at least a set amount toward paying off the bond, meaning that lower-income districts can have a hard time qualifying for the program at all.

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As of June, the state's School Bond Loan Fund **is owed about \$900 million** by 133 school districts, with individual loan balances ranging from \$2,315 to just over \$64 million, according to a Treasury Department spokesman.

Most states offer some version of Michigan's School Bond Loan Fund, said Mike Griffith, an education finance consultant for the Education Commission of the States, although the programs vary as to how generous they are with the terms of the loan and how difficult it is for a district to qualify for help. In the end, districts are still largely dependent on the strength of their local tax base when it comes to facilities costs, he said.

Students move between floors at Whitmore Lake High School, a spacious facility that is under capacity as enrollment has steadily declined in recent years. Credit: Ben Smith for The Hechinger Report

An attempt to share the debt

In 2014, Whitmore Lake was not the only school district in the area looking for a way to improve its future prospects. Ann Arbor Public Schools, a more affluent district with about 17,000 students at the time, was also predicting its enrollment to decline between 2015 and 2020. The two districts began talking about merging, and by the summer they had agreed to fast-track an annexation proposal for the November ballot.

Annexation (when a larger district absorbs a smaller one) or consolidation (when districts join together to form a new entity) can offer a lifeline to districts in over their heads financially. But there are typically few incentives to encourage those kinds of partnerships.

"The incentive built into our school funding system is to stay as small as possible and keep your wealth as close to you as you can," EdBuild's Sibilia said. "You're asking a community to say, 'Hey, why don't you take all of these kids in. Take on all of the debt from these bad decisions that they've made in the past ...' Who is going to say yes to that?"

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In 39 states — including Michigan — officials have no authority to force districts to combine, **according to a recent report** by EdBuild. While 26 states have programs in place to encourage consolidations, the incentives are "modest," EdBuild concluded. And even in states where forced mergers are legal — and when a merger may be the only way to save a struggling district from extinction — they rarely happen.

Michigan's Department of Education attempted to sweeten the deal for Ann Arbor; the state offered **a \$1.4 million grant** to help with transition costs (substantially less than the \$4.1 million the district had requested) as well as an extra \$100 per student in funding, which would have amounted to another \$1.8 million annually. Whitmore Lake's school board and administration would be dissolved in the deal, but its students would gain access to opportunities such as additional Advanced Placement classes and foreign languages. The 62 Whitmore Lake teachers would see their salaries and benefits bumped up to match Ann Arbor's.

But Ann Arbor would also inherit Whitmore Lake's \$60 million in debt, which included the \$33 million spent on the high school as well as older capital projects dating back to the 1990s. As **the annexation campaign explained**, for every \$100,000 of taxable home value, Ann Arbor residents would see their taxes increase by about \$25, while Whitmore Lake residents would pay \$37 less than they had when the school debt was theirs alone.

For Susan Baskett, who has served on the Ann Arbor School Board since 2003, the numbers just didn't add up, especially when there were plenty of students already in Ann Arbor schools who weren't succeeding academically. "The question I kept asking was 'Why in the world would we agree to this?'" said Baskett, who was one of the annexation plan's most vocal critics. "When we're not doing as well as we should be, to boldly take on another district — that's not fair to anybody."

Jay Munz, who's taught math in Whitmore Lake for 23 years, said he remembers being shocked when he first read the ballot measure — written by bond lawyers — which didn't go much beyond "Shall the Public Schools of the City of Ann Arbor County of Washtenaw, Michigan, assume the bonded indebtedness of the Whitmore Lake Public School District?"

Where was the explanation that Whitmore Lake wasn't coming to Ann Arbor empty-handed, Munz wondered. What about the facilities, including the stellar high school? Or the human capital?

After a divisive campaign on both sides of the border, the annexation proposal passed easily in Whitmore Lake but fell short in

Jay Munz, who has taught for 23 years in Whitmore Lake, was surprised that a controversial annexation campaign in 2014 didn't play up the benefits his district would have brought to neighboring Ann Arbor Public Schools. Credit: Ben Smith for The Hechinger Report

Ann Arbor, leaving DeKeyser and his team with a daunting problem to solve. “We were responsible for ourselves — not the county, not the state,” DeKeyser said. “We had to figure out how to survive.”

A last ditch attempt to save the district

Sheila Davis, who settled with her family in Whitmore Lake in 2004 partly because of the appeal of its smaller neighborhood schools, said several of her friends pulled their kids out of the schools after the failed annexation and sent them to charters or private schools. They were worried about staff layoffs and whether the district would even survive. Another 100 students had left by the end of the 2014-15 academic year, putting total enrollment at about 850.

Davis decided to keep her children in the Whitmore Lake schools. If the school system dissolved, it would hurt property values for homeowners like her, and also be a huge blow to the community’s sense of identity, Davis said, especially given the number of shuttered storefronts on Whitmore Lake’s Main Street. “People thought it would put us one step closer to a ghost town,” Davis said.

“Once you have declining enrollment and you’re losing state per-pupil dollars, you’re constantly cutting programs and services, which only adds to your problems.”

Patti Kobeck, the current president of the Whitmore Lake Education Association, who teaches English language arts at the elementary school, said the district is Whitmore Lake’s largest employer and that many of the staff live locally. “Our community is so school-centered that it was really important that we stay.”

But staying meant taking chances on some extreme changes. In November 2014, the board reached a deal to reduce teacher and administrative pay across the board by nearly 5 percent, Kobeck said. (Support staff was protected but their salaries were frozen.) In addition to the pay cut, teachers agreed to a “step break,” meaning they wouldn’t advance up the salary ladder for each year of work.

The middle school grades were phased into the under-populated high school. And in what may have been the most controversial move, the middle school building was rented out to a charter school. The Whitmore Lake School Board serves as the authorizer, a deal that brings in over \$200,000 annually in rent and fees. To save more money, the district also consolidated administration jobs: DeKeyser became principal for both the middle and high school, as well as the district superintendent. (He also serves as maintenance director.)

The gambles paid off. The district’s reserve fund balance — essentially a rainy day fund — is up to about 9 percent. The district owes just under \$53 million in bond debt, DeKeyser said, down about \$7 million since the

failed annexation. Whitmore Lake's state loan fund balance fluctuates, but currently stands at about \$10 million.

Teachers have recovered about 2 percent of the salary cut, though they're still two years behind on seniority. Combining the middle and high school yielded surprising benefits, including providing more opportunities for electives and advanced classes.

Whitmore Lake's financial problems forced some valuable debate about how Michigan currently funds its schools, said Scott Menzel, superintendent of the Washtenaw Intermediate School District, a regional agency providing support services to local districts.

"We're going to continue to have conversations about how small districts survive," said Menzel, who was Whitmore Lake's superintendent from 2002 to 2007. "I would have bet on Whitmore Lake surviving because I know the community. But I still have to tip my hat to [DeKeyser] for making some very difficult decisions, and to the staff for making some very tough choices to ensure the viability of the district."

To be sure, Whitmore Lake's turnaround stands out as an anomaly, particularly at a time when cash-strapped school systems are a common occurrence, said Griffith, the Education Commission of the States' school finance consultant. Fresh revenue from renting out facilities and teachers willing to take a steep pay cut aren't options for most districts. But there are still potential lessons for other districts facing similar challenges, he said, including cutting costs — especially administrative overhead — while minimizing the impact to student services and classroom instruction. That's particularly critical in a state like Michigan where parents have many options to move their children to charter schools or neighboring districts that are in better financial shape, he added.

"Once you have declining enrollment and you're losing state per-pupil dollars, you're constantly cutting programs and services, which only adds to your problems," Griffith said. "It's very difficult to climb out of that downward spiral once you're in it. That [Whitmore Lake] managed to do this is pretty remarkable."

DeKeyser knows the reorganization might have looked like a gamble at the time, and some of the decisions were contentious. It only succeeded because the entire school community agreed to go all in.

"We had nothing to lose and everything to gain," DeKeyser said. "We had to save our district."

*This story about **school debt** was produced by The Hechinger Report, a nonprofit, independent news organization focused on inequality and innovation in education. Sign up for the **Hechinger newsletter**.*

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