



Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536


 BILL ANALYSIS

Telephone: (517) 373-2768
Fax: (517) 373-1986

House Bill 4325 (Substitute S-5 as retransmitted by the House)

House Bill 4326 (as enrolled)

House Bill 4327 (as enrolled)

House Bill 4328 (as enrolled)

House Bill 4329 (as enrolled)

House Bill 4330 (as enrolled)

Sponsor: Representative Earl Poleski (HB 4325 & 4326)

Representative Al Pscholka (H.B. 4327)

Representative Lisa Posthumus Lyons (H.B. 4328)

Representative Pat Somerville (H.B. 4329)

Representative Tim Kelly (H.B. 4330)

House Committee: Education

Senate Committee: Education

CONTENT

House Bill 4325 (S-5) would add Section 1219 to the Revised School Code to do the following:

- Require each school district and public school academy (PSA), before July 7 of each year, to transmit to the Center for Educational Performance and Information (CEPI) the budgetary assumptions used when adopting its annual budget, unless it had a positive general fund balance of at least 5% in the two most recent school fiscal years.
- Allow the Superintendent of Public Instruction (State Superintendent) or State Treasurer to declare that the potential for fiscal stress existed for a school district, intermediate school district (ISD), or PSA, based on various data or other information.
- Require the State Treasurer to notify the governing body of a district, ISD, or PSA of the declaration within 14 days.
- Allow a school district or PSA to contract with an ISD, and allow a PSA to contract with its authorizing body, to perform an administrative review of the district's or PSA's financial status, and require the ISD or authorizing body to consult with the Department of Treasury on the development of the contract.
- Require a school district or PSA that chose to enter into such a contract to do so within 60 days after receiving notification of the declaration.
- Specify the provisions required in an administrative review contract.
- Allow an ISD or authorizing body to rescind the contract if the school district or PSA failed to comply with one or more of its recommendations, and allow a district or PSA to rescind a contract for any reason.
- Allow the parties to a contract to request the Department of Treasury to waive one or more of the items required in an ISD's or authorizing body's administrative review.
- Allow the State Treasurer to require a school district, ISD, or PSA to submit periodic financial status reports, under certain circumstances.
- Specify that a school district or PSA would not have to submit periodic financial status reports if it had entered into a contract with an ISD, until at least 730 days after the governing body of the district or PSA was notified of the declaration.
- Require a school district or PSA to submit an enhanced deficit elimination plan if it failed to submit a periodic financial status report, or if it were determined that there was fiscal stress or a deficit.

- Specify that a school district or PSA would no longer have to submit periodic financial status reports if the State Treasurer determined that the reports indicated that fiscal stress or a deficit did not exist.
- Require CEPI to post all of the periodic financial status reports it received on its website.

House Bill 4327 would add Section 1220 to the Revised School Code to do the following:

- Prohibit a district, ISD, or PSA from adopting, or operating under, a deficit budget.
- Require certain actions to be taken if a district, ISD, or PSA had an existing deficit, incurred a deficit fund balance, or adopted a budget that projected a deficit fund balance.
- Allow the State Treasurer to require a district, ISD, or PSA that was subject to rapidly deteriorating financial circumstances to submit an enhanced deficit elimination plan.
- Provide that if a district, PSA, or ISD subject to a deficit elimination plan failed to eliminate the deficit within five years, the State Treasurer would have to require it to submit an enhanced deficit elimination plan.
- Require the board of a district or ISD, or the board of directors of a PSA to approve an enhanced deficit elimination plan before it was submitted to the State Treasurer.
- Allow the State Superintendent to continue the payment of funds under the State School Aid Act if a district, ISD, or PSA submitted a deficit elimination plan that was approved by the Department of Education.
- Specify that, as a condition of approving an enhanced deficit elimination plan, the State Treasurer could require a district, ISD, or PSA to enter into a financial recovery agreement.
- Require the Department of Treasury to consult with certain entities in the development and implementation of a deficit elimination plan and an enhanced deficit elimination plan.
- Provide that a district, ISD, or PSA required to submit a deficit elimination plan or an enhanced deficit elimination plan would have to submit a monthly monitoring report to the State Superintendent and the State Treasurer.
- Require various annual and quarterly reports to be submitted to the several legislative committees, the House and Senate Fiscal Agencies, the State Treasurer, and the State Budget Director.

House Bill 4328 would amend Section 102 of the State School Aid Act to do the following:

- Allow the Department of Education, or the State Treasurer, to withhold money payable to a district or intermediate district that was required to submit a deficit elimination plan, or enhanced deficit elimination plan, and failed to do so or if the plan were not approved.
- Require the Department of Education, or the Department of Treasury, as applicable, to release the money withheld after the deficit elimination plan or enhanced deficit elimination plan was approved.
- Require the applicable Department to consult with certain entities in the development and implementation of a deficit elimination plan or an enhanced deficit elimination plan.
- Specify that an allocation of school aid would be contingent on compliance with Section 102.
- Eliminate language requiring a quarterly deficit report to the Legislature and language prescribing the current process for a deficit elimination plan.

House Bill 4330 would amend Sections 17a and 18 of the State School Aid Act to do the following:

- Allow the Department of Education to withhold all or part of a payment that a district was entitled to receive to the extent that the withholding was part of a plan implemented under Section 1356 of the Revised School Code (which pertains to districts with an operating deficit).
- Allow the State Treasurer to withhold all or part of a payment that a district was entitled to receive to the extent that the withholding was authorized or required under Section 1356.

- Require a district or intermediate district to adopt an annual budget in a manner that complied with the Uniform Budgeting and Accounting Act.
- Allow the Department to withhold up to 10% of the total State school aid due to a district or intermediate district until it adopted a budget that complied with that Act.
- Specify that an allocation of State school aid to a district or another entity would be contingent on the district's or entity's compliance with Sections 17a and 18 of the State School Aid Act.
- Require districts and ISDs, by November 1, 2015, to submit reports pertaining to per-pupil costs for online learning.

House Bill 4329 would amend the Local Financial Stability and Choice Act to allow the State Treasurer to declare that a financial emergency existed within a school district and recommend the appointment of an emergency manager if the school district were subject to an enhanced deficit elimination plan and failed to submit the plan or comply with it.

House Bill 4326 would amend the Local Financial Stability and Choice Act to do the following:

- Specify that the State financial authority for a school district subject to a deficit elimination plan would be the State Treasurer.
- Require the State financial authority of a school district to conduct a preliminary review to determine the existence of probable financial distress within the district under certain circumstances.
- Specify that the existence of certain factors would be prima facie evidence that probable financial stress existed for the school district.

House Bills 4325 (S-5), 4327, 4328, and 4330 are tie-barred to each other. House Bill 4325 (S-5) is also tie-barred to House Bills 4331 and 4332. House Bill 4329 is tie-barred to House Bill 4327 and 4331.

Proposed MCL 380.1219 (H.B. 4325)
 MCL 141.1542 & 141.1544 (H.B. 4326)
 Proposed MCL 380.1220 (H.B. 4327)
 MCL 388.1702 (H.B. 4328)
 Proposed MCL 141.1547a (H.B. 4329)
 MCL 388.1617a & 388.1618 (H.B. 4330)

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bills likely would result in increased administrative costs for the State and local school districts, public school academies, and intermediate school districts, but by an unknown degree.

The State would see increased administrative costs at the Departments of Education and Treasury, and at the Center for Educational Performance and Information, related to increased data collection, management, monitoring, and review. Because the determination of financial stress would be by the Superintendent of Public Instruction or by the State Treasurer, and because financial factors likely will change year-to-year, it is not feasible to determine the precise fiscal impact of the extent of data review. However, the annual budgetary assumption data collection, compilation, and transmission would mean increased administrative expenses for CEPI compared to its current level of data collection and processing.

The fiscal year (FY) 2014-15 budget for the Department of Education includes 4.0 full-time equivalent (FTE) positions and \$389,000 for financial independence teams, and the FY 2014-15 Department of Treasury budget includes 9.0 FTEs and \$2.25 million for the teams and for provision of technical assistance including data analysis tools. For FY 2015-16, the enrolled budget for the Department of Education continues to fund 4.0 FTEs, but at a full-year cost of

\$777,600, and the 9.0 FTEs at Treasury, along with the technical assistance, on a full-year basis are funded at \$3,694,100.

Local school districts, public school academies, and intermediate school districts likely would see increased administrative costs associated with House Bill 4325 (S-5), because if the State Treasurer or Superintendent of Public Instruction determined conditions of fiscal stress, the local school district or public school academy would have an option to enter into a contract for an intermediate district (or authorizing body for an academy) to conduct a financial review, but if the district or academy chose not to enter into a contract and met other conditions, the State Treasurer could require the district or academy to submit periodic financial reports. If the district or academy did not submit periodic financial reports, or if the information in the reports led to a conclusion of fiscal stress, the district or academy could be required to submit an enhanced deficit elimination plan. Any of these activities would require the submission of additional data, reports, and plans as provided under this package of bills, and if a district or academy chose to enter into a contract for a financial review, that could result in an increased cost, dependent on the terms of the contract. In addition, HB 4327 would require local schools to retain a consultant or other experts if determined by the State Treasurer to be a requisite part of a financial recovery agreement, for certain entities that would be required to submit an enhanced deficit elimination plan.

Local entities that failed to submit or receive approval for an enhanced deficit elimination plan also could be subject, under HB 4328, to withholding of State school aid payments under the State School Aid Act in an amount determined by the Department of Education to give the district or ISD an incentive to eliminate its deficit. (This withholding provision already is allowed under the Act with respect to the submission of deficit elimination plans.)

Additionally, HB 4329 could result in a local fiscal impact by broadening the circumstances under which an emergency manager may be appointed, to include school districts that were subject to an enhanced deficit elimination plan and had been determined by the State Treasurer to have failed to submit the plan or comply with its requirements.

Date Completed: 6-22-15

Fiscal Analyst: Kathryn Summers

SAS\S1516\s4325sc

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.