



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

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4325 (Substitute H-3 as passed by the House)
House Bill 4326 (as passed by the House)
House Bill 4327 (Substitute H-3 as passed by the House)
House Bill 4328 (Substitute H-1 as passed by the House)
House Bill 4329 (as passed by the House)
House Bill 4330 (Substitute H-1 as passed by the House)
Sponsor: Representative Earl Poleski (H.B. 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

Date Completed: 6-15-15

CONTENT

House Bill 4325 (H-3) would add Section 1219 to the Revised School Code to do the following:

- Require each school district and public school academy (PSA) to transmit to the Center for Educational Performance and Information (CEPI) the budgetary assumption used when adopting its annual budget.
- Require a school district, intermediate school district (ISD), or PSA to notify the Superintendent of Public Instruction (State Superintendent) if it determined that conditions of financial stress had arisen or could arise.
- Allow the State Treasurer to require a school district or PSA to periodic financial status reports if there were a determination of potential financial stress or a deficit, based on certain factors.
- 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 financial stress or a deficit.
- Specify that a school district or PSA would not have to submit periodic financial status reports if it had a positive general fund balance of at least 8%, or if it were required to submit a deficit elimination plan or an enhanced deficit elimination plan, or if a financial emergency had been declared for the district or PSA.
- 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 financial stress or a deficit did not exist.
- Require CEPI to post all of the budgetary assumptions and the periodic financial status reports it received on its website.

House Bill 4327 (H-3) 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 and it were 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 (H-1) 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 (H-1) 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 budget).
- 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 or entity's compliance with Sections 17a and 18 of the State School Aid Act.**

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 (H-3), 4327 (H-3), 4328 (H-1), and 4330 (H-1) are tie-barred to each other. House Bill 4329 is tie-barred to House Bill 4327 and 4331. Each of the bills would be effective 90 days after its enactment.

House Bill 4325 (H-3)

Definitions

"Deficit" would mean a condition prohibited under Section 15(2) of the Uniform Budgeting and Accounting Act, or under Section 102(1) of the State School Aid Act (which House Bill 4328 (H-1) would amend). "Deficit" also would include one or both of the following circumstances for a school district, ISD, or PSA: a) the total general fund balance of the school district, ISD, or PSA is negative or is projected to be negative at the end of the current school year; or b) one or more of the funds of the school district, ISD, or PSA other than the general fund have a negative balance or projected negative balance that is greater than the total general fund balance.

"Financial emergency" would mean that one or more of the conditions described in Section 5(3)(a) to (m) of the Local Financial Stability and Choice Act exist or are likely to occur within a school district, ISD, or PSA in the current or next school fiscal year and threaten the ability of the school district, ISD, or PSA to provide necessary governmental services essential to public health, safety, and welfare.

"Fiscal stress" would mean one or both of the following: a) that a school district, ISD, or PSA is unable to meet its short-term or long-term financial obligations as those obligations arise, or b) that one or more of the conditions described in Section 4(1)(a) to (s) of the Local Financial Stability and Choice Act exist or are likely to occur within a school district, ISD, or PSA.

Budgetary Assumptions

The bill would require each school district and PSA, before July 7 of each school fiscal year, to transmit to CEPI the budgetary assumption used when adopting its annual budget under

the Uniform Budgeting and Accounting Act. This would not apply to a school district or PSA that had a positive general fund balance of at least 8% of total general fund revenue for each of its two most recently completed school fiscal years.

After CEPI received the budgetary assumptions, it would have to compile and transmit them to the Department of Treasury. The submission of budgetary assumptions would have to be in the form prescribed by CEPI and would have to include of all the following information:

- The projected foundation allowance and membership for the school district or PSA used by its governing body when adopting the budget for the district or PSA for the current fiscal year.
- The expenditures per pupil for the school district or PSA for the immediately preceding school fiscal year.
- The projected expenditures per pupil for the school district or PSA for the current school fiscal year.

If an authorizing body submitted a required budgetary assumption report on behalf of each PSA authorized by that authorizing body, then those PSAs would not have to submit the required report.

Requests for Technical Assistance

If a school district, ISD, PSA, or the authorizing body of a PSA, determined that conditions of fiscal stress, a deficit, or conditions indicating a potential financial emergency had arisen or could arise for the district or PSA, that entity would have to notify the State Superintendent and request technical assistance from the State in addressing the fiscal stress, deficit, or potential financial emergency. The Superintendent would have to notify the State Treasurer of any request for technical assistance. A school district that requested assistance would have to provide copy of the notice and request to the superintendent of the ISD in which the school district was located. A PSA that requested assistance would have to provide a copy of the notice and request to its authorizing body.

Within 45 days after it received a request for assistance, the Department of Education would have to consult with the Department of Treasury regarding the provision of technical assistance to the school district, ISD, or PSA. Subject to available resources, the Departments would have to review the financial condition and budget of the district or PSA, and, after consultation, provide technical assistance, including data analysis tools, with the objective of assisting the school district, ISD, or PSA in avoiding conditions of fiscal stress, a deficit, or a potential financial emergency before further State intervention.

Periodic Financial Status Reports

The State Treasurer could require a school district or PSA to submit periodic financial status reports if it were determined that potential financial stress could exist within the school district or PSA, that a deficit was projected to arise within the school district or PSA during the current, or next two, school fiscal years, or that the district or PSA might be unable to meet its financial obligations while also satisfying its obligation to provide public educational services in a manner that complied with the Code, the State School Aid Act, and applicable rules, based on one or more of the following:

- The school district or PSA had failed to pay a required obligation once or more in a school fiscal year.
- The school district or PSA had spent or distributed tax revenue in a manner prohibited by law.
- The school district's or PSA's pupil enrollment had declined by 5% or more in a single school fiscal year or by 15% or more over a period of three or more fiscal years and the district or PSA failed to reduce expenditures in a manner that addressed the decline.

- The school district's or PSA's expenditures per pupil had increased by 5% or more in the most recent school fiscal year as compared to the immediately preceding fiscal year.
- The school district's or PSA's actual enrollment for a school fiscal year was 96% or less of the enrollment used in the district's or PSA's budgetary assumptions for the school fiscal year and the district or PSA failed to adopt an amended budget that reflected the actual enrollment by November 15 of the fiscal year.
- The school district's or PSA's actual foundation allowance for a school fiscal year was 98% or less of the district's or PSA's budgetary assumptions reported for the school fiscal year and the district or PSA failed to adopt an amended budget reflecting the actual foundation allowance by November 15 of the fiscal year.
- The school district had applied for a loan under the Emergency Municipal Loan Act.

A school district or PSA would not have to submit periodic financial status reports unless the State Treasurer made a determination as described above, based on the one or more the factors listed above. If a school district or PSA were required to submit periodic financial reports, the district or PSA would have to: a) submit a periodic financial status report in the form, manner, and periodic basis prescribed by the Department of Treasury after consultation with CEPI, after approval by the governing body of the school district or PSA; b) transmit a copy of each report to the members of its governing body for approval; c) provide the Department of Treasury with other financial data relating to the financial condition of the district or PSA as requested; d) allow the Department to examine financial records and books of account of the district or PSA; and e) promptly and fully provide the assistance and information necessary and properly requested by the Department in the exercise its duties.

If a school district or PSA failed to submit a periodic financial status report, or if the State Treasurer determined that information included on a periodic financial status report indicated that financial stress existed within the school district or PSA that a deficit had occurred, or that a deficit was projected to occur within the school district or PSA within the current or next school fiscal year that the school district or PSA lacked the capacity to address without State assistance, the State Treasurer could require the district or PSA to submit an enhanced deficit elimination plan under Section 1220 (proposed by House Bill 4327 (H-3)).

A school district or PSA would not have to submit periodic financial status reports if either of the following applied: a) the district or PSA had a positive general fund balance of at least 8% of total general fund revenue for each of the two most recently completed school fiscal years, or b) the district or PSA was required to submit a deficit elimination plan or an enhanced deficit elimination plan under Section 1220, or a financial emergency had been declared for the school district under the Local Financial Stability and Choice Act.

If a school district were required to submit periodic financial status reports and a loan were issued to the school district under the Emergency Loan Act, the State Treasurer would have to require the school district to submit periodic financial status reports for at least four years after the date the loan was issued. A school district or PSA would not have to submit periodic financial status reports if the State Treasurer determined that the reports indicated that potential financial stress did not exist within the school district or PSA; that a deficit was not projected to arise within the school district or PSA during the current, or next two, school fiscal years, or that the district or PSA would be able to meet its financial obligations while also satisfying its obligation to provide public educational services in a manner that complied with the Code, the State School Aid Act, and applicable rules. If the State Treasurer made such a determination, the school district or PSA would have to be notified.

Public Information

The bill would require CEPI to make available to the public on its website all of the budgetary assumptions it received and all of the periodic financial status reports submitted to the State Treasurer. The State Treasurer would have to transmit to CEPI any documents it needed to comply with the bill's requirements.

House Bill 4327 (H-3)

The bill would prohibit a school district, ISD, or PSA from adopting or operating under a deficit budget, or incurring an operating deficit during a school fiscal year. (House Bill 4328 (H-1) would eliminate similar language that is currently in the State School Aid Act.) If a school district, ISD, or PSA had an existing deficit fund balance, incurred a deficit fund balance in the most recently completed school fiscal year, or adopted a current year budget that projected a deficit fund balance, the school district, ISD, or PSA would have to notify the State Superintendent and the State Treasurer immediately upon occurrence of the circumstances. A school district would have to provide a copy of the notice to the intermediate superintendent of the ISD in which the district was located, and a PSA would have to provide a copy of the notice to the PSA's authorizing body.

Within 30 days of the notice, the school district, ISD, or PSA would have to submit an amended budget and a deficit elimination plan to the State Superintendent, with a copy to the State Treasurer. A copy of the amended budget and deficit elimination plan also would have to be sent to the intermediate superintendent of the ISD, or the authorizing body of a PSA, as applicable.

The Department could withhold and release some or all of the money payable to the school district, ISD, or PSA as provided under Section 102(1) the State School Aid Act (which House Bill 4328 (H-1) would amend).

The State Superintendent could require a deficit reduction plan to include an academic plan for the school district, ISD, or PSA. After the Superintendent approved a deficit reduction plan, the school district, ISD, or PSA would have to post the plan on its website.

"Deficit elimination plan" would mean a plan required under Section 1220 for the elimination of a deficit that sets forth actions to be taken to eliminate the deficit within the time period prescribed by the Department of Education. "Deficit fund balance" would mean that term as defined in the "Michigan Public School Accounting Manual" published by the Department.

Deficit Reduction, Periodic Financial Status, & Monthly Monitor Reporting

The bill would incorporate within the Code a provision substantially similar to current law that pertains to reports of deficits incurred or projected by school districts, ISDs, and PSAs in the immediately preceding fiscal year, and the submission of those reports to the House and Senate standing committees responsible for K-12 education legislation, the Appropriations subcommittees responsible for K-12 appropriations, the House and Senate Fiscal Agencies, the State Treasurer, and the State Budget Director. (House Bill 4328 (H-1) would eliminate this provision from the State School Aid Act.)

By March 1 of each year, the State Treasurer would have to prepare a report of school districts, ISDs, and PSAs that were required under Section 1219 (which House Bill 4325 (H-3) would add) to submit periodic financial status reports in the immediately preceding State fiscal year or required under the bill to submit an enhanced deficit elimination plan in the immediately preceding fiscal year, and the progress made in adhering to that plan, and submit the report to the same entities that would receive the report of deficits incurred. The State Treasurer would have to submit to the same entities quarterly interim reports concerning school districts, ISDs, and PSAs that were subject to periodic financial status reports or under an enhanced deficit reduction elimination plan. The State Treasurer would have to publicly present those quarterly interim reports to the Appropriations subcommittees responsible for K-12 State school aid appropriations.

"Enhanced deficit elimination plan" would mean measures required by the State Treasurer under Section 1220 to address the financial conditions within a school district, ISD, or PSA and resolve any deficit within the time period prescribed by the State Treasurer.

A school district, ISD, or PSA required to submit a deficit elimination plan would have to submit to the State Superintendent and the State Treasurer a monthly monitoring report on revenue and expenditures in a form and manner prescribed by the Department of Education, and would have to post the reports on its website. A copy of the reports would have to be transmitted to the intermediate superintendent of the ISD, or the authorizing body of a PSA, as applicable. A school district could contract with its ISD or another entity to provide the monthly monitoring report.

If a school district, ISD, or PSA were required to submit a deficit elimination plan, and the plan were approved by the Department, the State Superintendent could continue allotment and payment of funds as provided under Section 102 of the State School Aid Act. When approving a deficit elimination plan, the Superintendent would have to establish the period of time within which a school district, ISD, or PSA would have to eliminate its deficit and could set special conditions that the district, ISD, or PSA would have to meet while the deficit elimination plan was in effect. After the Department approved a deficit elimination plan, the school district, ISD, or PSA would have to post the plan on its website. The requirements relating to a deficit elimination plan would not apply if the school district, ISD, or PSA were required to submit an enhanced deficit elimination plan.

If, based on information included in a periodic financial status report, a deficit elimination plan, or a request by the Superintendent, the State Treasurer determined that a school district, ISD, or PSA was subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress likely to result in recurring operating deficits or financial stress, the State Treasurer could require the school district, ISD, or PSA to submit an enhanced deficit elimination plan in the form and manner determined by the Department of Treasury. If the deficit for a school district, ISD, or PSA that was subject to a deficit elimination plan had not been completely eliminated within five years after it submitted its initial plan, the State Treasurer would have to require the entity to submit an enhanced deficit elimination plan. An enhanced deficit elimination plan would have to provide for the resolution of the rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of recurring operating deficits or financial stress and would be subject to approval by the State Treasurer.

As a condition of approving an enhanced deficit elimination plan, the State Treasurer could require a school district, ISD, or PSA to enter into a financial recovery agreement with the State Treasurer. A financial recovery agreement could provide for the following: a) assistance and guidance from the Department of Treasury and other State departments and agencies, b) a financial and operating plan for the school district, ISD, or PSA, c) the appointment of a local auditor and/or inspector, d) remedial measures or other action necessary to address the school district's, ISD's, or PSA's financial circumstances, and e) the required retention of a consultant or one or more experts for the purpose of assisting the district or PSA to achieve the goals of the financial recovery agreement.

Before a school district, ISD, or PSA submitted an enhanced deficit elimination plan to the State Treasurer, the board of the school district or ISD, or board of directors of the PSA would have to approve the plan. If a school district, ISD, or PSA were required to submit an enhanced deficit elimination plan, some or all of the money payable to the school district, ISD, or PSA under the State School Aid Act could be withheld by the State Treasurer and released under Section 102(3) of that Act (which House Bill 4328 (H-1) would amend). When approving a plan, the State Treasurer could establish the period of time within which a school district, ISD, or PSA would have to eliminate its deficit and could set special conditions that would have to be met while the plan was in effect.

To assure greater coordination and effective partnerships in the development and implementation of an enhanced deficit elimination plan, the Department of Treasury would have to consult with the Department of Education, the school district, ISD, or PSA required to submit a plan, and the intermediate superintendent of the ISD in which the school district was located, or the authorizing body of the PSA, as applicable.

After the State Treasurer approved an enhanced deficit elimination plan, the school district, ISD, or PSA would have to post the plan on its website. If a school district, ISD, or PSA were required to submit an enhanced deficit elimination plan, it would have to submit to the State Superintendent and the State Treasurer an enhanced monthly monitoring report on revenue, expenditures, cash flow, debt, other liabilities, assets, budget amendments, pupil membership, and other data relating to the finances of the school district, ISD, or PSA in a form and manner prescribed by the Department of Treasury, and post those reports on its website.

House Bill 4328 (H-1)

If a district or intermediate district were required to submit a deficit elimination plan under proposed Section 1220 of the Revised School Code, and the district or intermediate district failed to submit a deficit elimination plan or the deficit elimination plan were not approved, the Department of Education could withhold some or all of the money payable to the district or intermediate district in an amount necessary to give it an incentive to eliminate the deficit. Money could be withheld until the district submitted to the Department an amended budget for the current school fiscal year and a deficit elimination plan in the form and manner prescribed by the Department, or until it approved the plan.

When administering these provisions, the Department would have to consult with the following: a) the Department of Treasury, b) the chief administrative officer of the district or intermediate district required to submit a deficit elimination plan, and c) for a district required to submit a deficit elimination plan, the superintendent of the intermediate district in which the district was located.

Also, if a district or intermediate district were required to submit an enhanced deficit elimination plan, the State Treasurer could withhold some or all of the money payable to the district or intermediate district in an amount the Treasurer determined necessary to give the district an incentive to eliminate the deficit, until the district submitted an approved budget for the current school fiscal year and an enhanced deficit elimination plan in the form and manner prescribed by the Department of Treasury, or it approved the plan. The Department of Treasury would have to consult with the Department of Education and the other entities required for the implementation of a deficit elimination plan.

The bill would eliminate language requiring a quarterly deficit report to the Legislature and other entities and language prescribing the current process for a deficit elimination plan. (As discussed above, House Bill 4327 (H-3) would include similar language with changes within the Revised School Code).

House Bill 4330 (H-1)

Section 17a of the State School Aid Act authorizes the Department of Education to withhold all or part of a payment that a district or intermediate district is entitled to receive to the extent that the withholdings are a component of a plan implemented under the Revised Municipal Finance Act, the Emergency Municipal Loan Act, the Local Financial Stability and Choice Act, or other statutory authority, for financing an outstanding obligation upon which the district or intermediate district defaulted or for other financial obligations of the district or intermediate district. The State Treasurer may withhold all or part of any payment to the extent authorized or required under Section 15 of School Bond Qualification, Approval, and Loan Act, the Emergency Municipal Loan Act, the Local Financial Stability and Choice Act, or

other statutory authority. The bill would include Section 1356 of the Revised School Code within the listed statutory authority. (Section 1356 allows a school district with an actual or projected operating deficit in excess of \$100 per membership pupil to borrow and issue negotiable interest-bearing notes or bonds to fund the deficit.)

Section 18 of the State School Aid Act requires a district to make certain information available through a link on its, or its ISD's, website, after adopting its annual operating budget. The bill would require a district or intermediate district to adopt an annual budget in a manner that complied with the Uniform Budgeting and Accounting Act. If a district or intermediate district did not comply with these requirements, the Department could withhold up to 10% of the total State school aid due to the district or intermediate district, beginning with the next payment, until the district or intermediate district complied. If the district or intermediate district did not comply by the end of the fiscal year, the district or intermediate would forfeit the amount withheld.

The bill provides 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.

House Bill 4329

Section 7 of the Local Financial Stability and Choice Act provides that upon the confirmation of a finding of a financial emergency, the governing body of the local government must, by resolution within seven days after the confirmation, select one of the following local government options to address the emergency: a) a consent agreement, b) an emergency manager, c) the neutral evaluation process, or d) Chapter 9 bankruptcy. If the local government is a school district, the resolution must be approved by the school board and filed with the State Treasurer, with a copy to the State Superintendent.

Under the bill, notwithstanding Section 7, if a school district were subject to an enhanced deficit elimination plan under the Revised School Code, and the State Treasurer determined that the school district failed to submit or comply with the plan's requirements, the State Treasurer could declare that a financial emergency existed within the school district and recommend that the Governor appoint an emergency manager to address the financial emergency within the school district.

House Bill 4326

The Local Financial Stability and Choice Act permits the State financial authority to conduct a preliminary review to determine the existence of probable financial stress within a local government under certain circumstances. The Act defines "state financial authority" as the following: a) for a municipal government, the State Treasurer, and b) for a school district, the Superintendent of Public Instruction. The bill would include within that definition, for a school district subject to a deficit elimination plan under Section 1220 of the Revised School Code, the State Treasurer.

The bill specifies that if one or more of the following occurred, the State financial authority of the school district would have to conduct a preliminary review to determine the existence of probable financial distress within the school district: a) the school district was subject to a deficit elimination plan under Section 1220 of the Revised School Code, and the State Treasurer determined that the school district had failed to submit or materially comply with the requirements of the deficit elimination plan; b) the school district was subject to a deficit elimination plan under Section 1220 of the Revised School Code that provided for the elimination of deficit over a period exceeding five years.

The Act requires the State financial authority to prepare a final report detailing its preliminary review to the Local Emergency Financial Assistance Loan Board. For a preliminary review conducted under the bill, if the final report prepared by the State financial authority confirmed

the existence of either of the factors described above, the State financial authority's confirmation would be prima facie evidence that probable financial stress existed for the school district.

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 both 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 Center for Educational Performance and Information, and at the Departments of Education and Treasury related to the increased data collection, management, monitoring, and review, and the provision of technical assistance upon request, subject to available resources. Because the determination of financial stress would be by the Department of Treasury, and because financial factors likely will change year-to-year, it is not feasible to determine the precise fiscal impact of the additional technical assistance or extent of data review.

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 the submission of additional data, reports, and plans as provided under this package of bills. In addition, HB 4327 (H-3) 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 (H-1), 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 subject to an enhanced deficit elimination plan that had been determined by the State Treasurer to have failed to submit or comply with the requirements of the plan.

Fiscal Analyst: Kathryn Summers

SAS\S1516\s4325sa

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.