



Senate Fiscal Agency  
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## BILL ANALYSIS



Telephone: (517) 373-5383  
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House Bill 4325 (Substitute S-1)  
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: 6-17-15

**CONTENT**

**House Bill 4325 (S-1) would add Section 1219 to the Revised School Code to do the following:**

- **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 public school academy (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 to perform an administrative review of the district's or PSA's financial status.**
- **Require a school district or PSA to enter into such a contract with an ISD within 60 days after receiving notification of the declaration.**
- **Specify the provisions required in an administrative review contract.**
- **Allow the State Treasurer to require a school district, ISD, or PSA to submit periodic financial status reports, if certain criteria were satisfied.**
- **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 ISD submitted recommendations under an administrative review.**
- **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 the Center for Educational Performance and Information (CEPI) to post all of 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 (S-1), 4327 (H-3), 4328 (H-1), and 4330 (H-1) are tie-barred to each other. House Bill 4325 (S-1) is also tie-barred to House Bills 4331 and 4332. 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 (S-1)**

#### 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 (i), (k) to (q), or (s) of the Local Financial Stability and Choice Act exist or are likely to occur within a school district, ISD, or PSA.

## Determination of Fiscal Stress

If the State Superintendent or the State Treasurer determined that the potential for fiscal stress existed within a school district or PSA, that an operating deficit was projected to arise within a school district or PSA during the current school fiscal year, or the next two school fiscal years, or that a 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, then the Superintendent or the State Treasurer could declare that the potential for fiscal stress existed for the district or PSA.

The determination would have to be based on consideration of financial data or other information that was: a) submitted by the school district, ISD, or PSA, or its officer, employee, contractor, or agency, to a State department or agency, b) included within the district's or PSA's audited financial statement, c) provided to a State department, agency, or authority in connection with a request to issue a debt obligation, including information relating to a request for a loan under the Emergency Municipal Loan Act, or d) included within a recommended budget, budget, or general appropriations act of the school district or PSA. The determination also would have to be based on the following: a) for a school district, data relating to pupil enrollment, or financial data or other information provided to the Department of Education or Treasury by the ISD in which the school district was located; or b) for a PSA, financial data or other information provided to the Department of Education or Treasury by the authorizing body of the PSA.

If the State Superintendent or the State Treasurer declared that the potential for fiscal stress existed for a school district, ISD, or PSA, then, within 14 days after the declaration, the State Treasurer would have to notify the governing body of the school district, ISD, or PSA of that declaration and, for a school district or PSA, notify its governing body that it could contract with an ISD to perform an administrative review of the school district or PSA.

## Administrative Review

If there were a declaration that the potential for fiscal stress existed for a school district or PSA, it could choose to contract with an ISD to perform an administrative review of the district's or PSA's financial status. The school district or PSA would have to enter into this contract within 60 days after receiving notification of the declaration. A contract between an ISD and a school district or PSA would have to provide for the following:

- Within 90 days after entering the contract, the ISD would have to complete an administrative review and issue recommendations concerning the steps the school district or PSA could take to avoid a deficit.
- After completing the administrative review, the ISD would have to present the recommendations at the next scheduled public meeting of the school district's or PSA's governing body.
- The ISD would have to send a copy of the recommendation to the Departments of Education and Treasury.
- The school district or PSA would have to give the ISD or its agents access to all financial data relating to the district's or PSA's financial condition.
- The school district or PSA would have to allow the ISD or its agents to examine all of the district's or PSA's financial records and books of account.
- The school district or PSA would have to promptly and fully provide the assistance and information properly requested by the ISD or its agents, including a request for a facility condition assessment or a physical asset inventory if either of those had not been completed in the preceding 24 months.
- The school district or PSA would have to allow the ISD to work in a consortium with other ISDs in the effectuation of its duties.

- The school district or PSA would have to allow the ISD to use a contractor or contractors to assist in the review on a cost recovery basis as determined by the ISD.

The administrative review would have to include an examination of the following: a) financial practices, budget to actual expense report monitoring, and budget amendment practices; b) staffing and wages, and a comparison of staffing and wages to other districts or PSAs; c) benefit costs as a percentage of wages; d) an examination of noninstructional costs by function; e) deferred maintenance and capital investment needs; f) substitute costs, workers compensation costs, and unemployment compensation costs and forecasts; g) pupil transportation costs; and h) current and future costs of existing bargaining agreements. The administrative review also would have to include a school building student capacity review and a review of enrollment projection methods.

### Periodic Financial Status Reports

The State Treasurer could require a school district, ISD, or PSA to submit periodic financial status reports if all of the following occurred:

- The State Superintendent or the State Treasurer had declared that the potential for fiscal stress existed for the school district, ISD, or PSA.
- More than 60 days had passed since the district was notified of the declaration.
- For a school district or PSA, it had not established a contract with an ISD in the time and manner prescribed.
- The school district, ISD, or PSA had not had a positive general fund balance of at least 5% of total general fund revenue for each of the last two school fiscal years.
- The school district, ISD, or PSA was not required to submit a deficit elimination plan or enhanced deficit elimination plan.
- For a school district or ISD, the Governor had not determined that a financial emergency existed under the Local Financial Stability and Choice Act.

If a school district or PSA entered into a contract with an ISD, the State Treasurer could not require it to submit periodic financial status reports until at least 730 days after the ISD had presented the recommendations to the district's or PSA's governing body as required in the contract. The State Treasurer could require the district or PSA to submit periodic financial status reports if he or she determined that the district or PSA had not implemented any of the recommendations within 365 days after the ISD's presentation of recommendations.

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; b) transmit a copy of each report to the members of its governing body; 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 of 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 fiscal stress existed within the school district or PSA, or that a deficit had occurred or was projected to occur within the school district or PSA within the current or next school fiscal year and that the school district or PSA lacked the capacity to address it 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)).

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 not more than 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 fiscal 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 school fiscal year or the next two school fiscal years, and 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 within 14 days.

### Public Information

The bill would require CEPI to make available to the public on its website 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 (S-1) 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 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 likely 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.

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-1), 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 to enter into a contract for an intermediate district to conduct a financial review, or submit periodic financial reports under certain additional criteria, or submit an enhanced deficit elimination plan under other conditions, and these activities would require 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