

CONVERSION SCHOOLS

Mary Ann Cleary, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 620 as passed by the Senate
Sponsor: Sen. David Robertson
House Committee: Education
Senate Committee: Education

Complete to 9-18-12

A SUMMARY OF SENATE BILL 620 (S-8) AS PASSED BY THE SENATE 6-6-12

The bill would add Part 6D to the Revised School Code (MCL 380.3 et al.) to provide for the organization and administration of **conversion schools**, which would be public schools previously operated by a school district and converted under a contract issued by an authorizing body.

Generally speaking, the extensive provisions describing the organization, responsibilities, and regulation of the conversion schools mirror those already found in Part 6A of the Revised School Code to address public school academies (charter schools).

The bill would do the following:

- Allow a public school operated by a school district to be converted to and operated as a conversion school pursuant to a parental petition under Section 1280c (described below).
- Allow a school to be converted only if it is among the lowest-achieving 5% of all public schools in the state.
- Require an application to convert a school to be submitted to an authorizing body. (The board of a school district, intermediate school district, community college, or public university, or two or more of those entities under an interlocal agreement under the Urban Cooperation Act.)
- Provide that a school board, intermediate school board, or community college board could not issue a contract for a conversion school to operate outside the boundaries of the district.
- Include a school operated by a conversion school corporation in the Code's definition of "public school," and include a conversion school in the definition of "public school academy" (or charter school).
- Specify provisions that a contract must contain, including the school's educational goals and the methods to be used to hold the school accountable.
- Require the goals to include making measurable progress toward academic achievement for all groups of pupils, toward average attendance of at least 80 percent, and toward a high school graduation rate of at least 80 percent.
- Provide that an initial contract could not exceed five years from the beginning of the school year when the school was to start operating.

- Require a conversion school to use certificated teachers except as provided for a school authorized by a university or community college.
- Require a conversion school to be located within the same attendance area of the school district that previously operated the school, and permit the conversion school to be located at the building that was converted.
- Require a school district to lease a school building to a conversion school for \$1 per year, if the building were used for classroom instruction.
- Allow an authorizing body to revoke a conversion school's contract under certain circumstances and to take corrective measures to avoid revocation.
- Require revocation if a conversion school is among the lowest-achieving schools in the state after operating for at least four years, and other conditions are met.
- Require the State School Reform/Redesign Officer to implement a new restructuring model in the school building if, at the time of revocation, the school was among the lowest-achieving schools in the state and had been in continuous operation in the building that had been occupied by the converted public school.
- Allow an authorizing body to charge a fee of up to 3% of a conversion school's total state school aid for overseeing the school's contract.
- Prohibit a conversion school from levying any taxes.
- Prohibit a conversion school from charging tuition or discriminating in its pupil admissions.
- Allow a conversion school to limit admission to pupils within a particular age range or grade level, but require it to include all of the grades offered before the conversion.
- Require a conversion school to give enrollment priority to a pupil who was previously enrolled in the school that was converted or who resides in the attendance area for that school.

The bill would amend Section 1280c of the Code, which pertains to the lowest-achieving 5% of all public schools in the state, to do the following:

- Require the board of a public school to notify the parent or legal guardian of each enrolled pupil within seven days after the school was placed under the supervision of the State School Reform/Redesign Officer (SRRO) because it was one of the lowest-achieving 5% of public schools.
- Within 90 days after a school was placed under the supervision of the SRRO, allow a parental petition to be submitted to the Department of Education recommending a single school intervention model to be implemented for the school in a redesign plan.
- Require the department to take certain actions if the petition is signed by at least 60% of the eligible parents or legal guardians of pupils at the school, or by at least 51% of the eligible parents or guardians plus at least 60% of the eligible teachers.
- Require the school board to work with the SRRO to implement the recommended intervention model if it is a restructuring model other than the restart model.
- Allow the parents and legal guardians to apply for a contract to operate the public school as a conversion school, if the recommended intervention model is the

restart model; and require other measures to be taken if an application for a contract were not submitted or a contract were not issued.

- Provide that the SRRO could not place a public school in the State School Reform/Redesign school district before five years had expired, if a school board implemented the intervention model recommended in a parental petition or if a contract to operate the school as a conversion school were obtained.

FISCAL IMPACT:

State Impact: From a foundation allowance standpoint, the conversion of a public school building from traditional school district to a "conversion school" alters the state and local share that constitute a district's' foundation allowance and State School Aid budget outlays. The foundation allowance consists of a local share (local revenue divided by the number of pupils) and the state share (the difference between the foundation allowance and the local share). The movement of students from the traditional school district to a conversion school would lower the district's pupil count, thereby increasing the "local share" and decreasing the state share and School Aid budget outlays. However, for the conversion school, the state pays 100% of the foundation allowance. Typically, the full cost of the foundation allowance would be equal to the decreased state share for the traditional district. This is generally the case in instances where a district's foundation allowance is less than or equal to the charter school maximum (\$7,110), as shown in the example below, where the district and the conversion school receive the state minimum foundation allowance in FY 2012-13.

	Before	After
Local Share	4,500	6,000
State Share	2,466	966
Foundation Allowance	6,966	6,966
Pupils	2,000	1,500
Local Operating Revenue	9,000,000	9,000,000
School District State Share	4,932,000	1,449,000
Conversion School State Share (500 x \$7,110)		3,483,000
Total State Share	4,932,000	4,932,000
Difference		0

However, there are possible situations where, after the conversion, the combined state foundation allowance costs for the traditional school district and the conversion school could be less than the state's costs before the conversion, meaning the state would realize

some savings. In the case below, the district's foundation allowance is \$7,600, whereas the foundation allowance of the conversion school is \$7,110.

	Before	After
Local Share	4,500	6,000
State Share	3,100	1,600
Foundation Allowance	7,600	7,600
Pupils	2,000	1,500
Local Operating Revenue	9,000,000	9,000,000
School District State Share	6,200,000	2,400,000
Conversion School State Share (500 x \$7,110)		3,555,000
Total State Share	6,200,000	5,955,000
Difference		(245,000)

Conversely, there are possible situations where, after the conversion, the combined state foundation allowance costs for the traditional school district and the conversion school could be greater than the state's costs before the conversion, meaning state School Aid expenditures would increase.

In the case below, the district's foundation allowance is \$7,600, whereas the foundation allowance of the conversion school is \$7,110, although the local funds account for a larger share of the district's foundation allowance.

In this example, following the conversion, the district's local operating revenue per pupil (i.e. its local share) exceeds its foundation allowance. The district is permitted to retain the amount it generates through its school operating mills above its foundation allowance. However, the state then is required to pay for the entire foundation allowance of the conversion school.

In this example, the state would pay more than \$3.2 million than it otherwise would were it not for the conversion.

	Before	After
Local Share	7,400	9,867
State Share	200	0
Foundation Allowance	7,600	7,600
Pupils	2,000	1,500
Local Operating Revenue	14,800,000	14,800,000
School District State Share	400,000	0
Conversion School State Share (500 x \$7,110)		3,555,000
Total State Share	400,000	3,555,000
Difference		3,155,000

Over time, there could also be instances where all of a district's schools are individually converted to "conversion schools," in which case the district would continue levying its local 18 school operating mills, while the state pays 100% of the foundation allowance for the conversion schools. This would be similar to the current structure of the Highland Park and Muskegon Heights school districts, where all of the schools in the districts have been converted to charter schools. Those districts continue to levy their operating millage, and receive a full foundation allowance from the state with state funds.

Local Impact: The bill would have varying impacts on local school districts. As a traditional school district "loses" a school building to a conversion school, the school district would generally see a reduction in revenue from its per-pupil foundation allowance. The revenue loss would be mitigated partially, or entirely, if the district were to become the authorizing body for the new conversion school. There are possible situations where the district, if it authorizes a conversion school, could potentially see an increase in state and local funding, as in the third example above, beyond what it would have received had the conversion not taken place. Ultimately, it depends on whether the district is one of the persistently lowest achieving - "priority" - schools and on its unique local finance characteristics.

The bill provides that conversion schools would be able to lease the school building from the traditional school district for only \$1, and would be responsible for direct building expenses including utilities, insurance, maintenance, repairs, and remodeling. Outside of this provision, the conversion school would likely pay a higher cost to lease a suitable school facility. The local school district would also realize some cost savings related to maintenance and operation of the converted school building, given that those costs would be borne by the conversion school. The school district (and its taxpayers) would remain responsible for any debt service requirement on bonds issued by the district related to the

construction or renovation of the converted school. The bill also provides that a district would not lease the school building to the conversion school if the lease would unconstitutionally impair a bond, note, security, or other legal obligation of the district.

The bill also provides that the conversion school could use non-certificated teachers, including tenured or tenure track faculty at an institution of higher education or faculty at a community college, depending on the school's authorizing body. The use of non-certificated teachers could have a fiscal impact on the conversion school depending on the wages and benefits paid to non-certificated teachers. School districts that "lose" a building to conversion could also see a reduction in personnel costs given the apparent need for fewer teachers and support staff following the conversion of a school.

Finally, the bill could increase the state share of Michigan Public School Employees' Retirement System (MPERS) costs. Because conversion school employees would not have to be in MPERS, the bill would exacerbate the decline in statewide MPERS payroll, which, other than underperforming investment returns in recent years, has been the biggest factor in the increase of employer contribution rates for unfunded accrued liabilities. Employer contribution rates are charged against MPERS payroll, and the same dollar amount collected on a smaller payroll base equals a higher percentage of that payroll. Now that the employer contribution rate for MPERS unfunded accrued liabilities is capped at 20.96% under PA 300 of 2012, any increase in that rate will be borne by the School Aid Fund. If the increased state share were to exceed the amount of available School Aid Fund revenue, either School Aid budget reductions or an increase in the capped employer contribution rate would be necessary.

Legislative Analyst: J. Hunault
Fiscal Analyst: Bethany Wicksall
Mark Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.