

DETROIT SCHOOL DISTRICT FINANCIAL OVERSIGHT

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House Bill 5385 (H-3) as passed the House

Sponsor: Rep. Earl Poleski

Committee: Appropriations

Complete to 3-17-16

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

The bill would amend Michigan Financial Review Commission Act as part of a package to restructure the Detroit Public Schools (DPS), which would be replaced by a new community district under House Bill 5384. In general, the bill would expand the authority of the Detroit City Financial Review Commission to cover the district or the successor community district as proposed under House Bill 5384.

House Bill 5385 is tie-barred to House Bill 5296, and thus will not go into effect unless both are enacted. House Bill 5296 (H-2) as passed by the House would appropriate \$48.7 million to address an estimated operating deficit and cash flow deficiency for Detroit Public Schools for the current school year.

Financial Review Commission

House Bill 5385 would amend the Michigan Financial Review Commission Act, enacted as part of the Detroit City Bankruptcy legislation in 2014¹, to expand the act's scope to cover Detroit Public Schools or the successor community district. The bill would allow a single financial review commission (FRC) to oversee the fiscal management for both a qualifying city and a school district that shares the boundaries of the city, but would add the district's superintendent and school board chair as FRC members. The mayor and local governing board chair would not vote on district issues, and the superintendent and school board chair would not vote on city issues.

Under the proposed legislation, the FRC would ensure compliance with several applicable state statutes. Specifically for the district, the bill would add the Revised School Code, the State School Aid Act, and the Public School Employees Retirement Act. Subject to any collective bargaining agreements in effect, the FRC would be charged with establishing a program and requirements that increase managerial accountability, streamline the provision of services, and review employee compensation and benefits.

The district would be required to provide the FRC with written reports regarding financial stability and allow the FRC to audit or inspect financial statements, actuarial reports, revenue estimates, and any other information the FRC considers necessary. The FRC would have to file reports with the Governor, Senate Majority Leader, and the House Speaker twice a year, and make those reports available on the Department of Treasury's website.

¹ See House Fiscal Agency Analysis: <http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-5566-7780ED85.pdf>.

Under the bill, the FRC would have to approve all collective bargaining agreements or revisions to those agreements. Each quarter, the district's chief financial officer would be required to certify to the FRC the amount of debt service due on bonds, leases, or other debt through maturity and certify the district's ability to meet those requirements for that fiscal year.

House Bill 5385 would allow the FRC to do the following for the district:

- Revise revenue estimates.
- Review, revise, and approve operational budgets.
- Review and approve requests to issue debt.
- Review compliance with a deficit elimination plan.
- Approve the appointment of the district's chief financial officer.
- Approve the appointment of the district's superintendent, and under the bill the district may not alter or terminate a superintendent's contract without approval of the FRC.
- Require development of financial best practices.
- Recommend policies and operating procedures.
- Require financial and managerial training.
- Make and execute contracts.
- Sue or be sued.
- Require access to all district information deemed necessary.
- Require employee attendance at FRC meetings.
- Perform any other duties assigned by the governor that are not inconsistent with the act.

Additionally the bill would establish conditions under which a district could demonstrate financial stability over time and receive a waiver regarding the FRC's oversight and responsibilities for the district, as well as the conditions under which the FRC could rescind that waiver if the community district fails to maintain compliance. Under the bill, the FRC for a district may not dissolve itself (and an FRC for both a city and a district may not release the district from oversight) until the State Treasurer certifies that both (1) the district has paid in full all outstanding current debt and (2) the district has been in compliance with the act for the immediately preceding 10 consecutive fiscal years.

FISCAL IMPACT:

The bill would have no fiscal impact on the state and an indeterminate fiscal impact on the district. Generally, providing the FRC with authority over the district or the successor community district proposed under House Bill 5384 is intended to improve the financial stability of the district, but there are no data available with which to estimate the potential fiscal impact. For the most part, financial viability of the district or the successor community district will be contingent on the new district's enrollment, and its ability to adjust expenditures to available foundation allowance and other revenues tied to that enrollment.

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