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**BILL ANALYSIS**

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House Bill 5296 (Substitute H-2 as passed by the House)  
Sponsor: Representative Al Pscholka  
House Committee: Appropriations

**CONTENT**

The bill would make supplemental appropriations to the Department of Treasury in the amount of \$48.7 million for distressed public schools financial assistance. The appropriation would be funded from State restricted revenue, namely Merit Award Trust Fund revenue remaining as an estimated year-end balance at the close of fiscal year (FY) 2015-16. The appropriation would be considered a payment to local units of government, and would not be released unless the distressed school district were subject to a financial review commission under the Michigan Financial Review Commission Act. (The Michigan Financial Review Commission Act creates a financial review commission for each qualified city, defined as a city with a population of more than 600,000 that is subject to a plan for adjustment, and prescribes the duties, responsibilities, and powers of a commission for its qualified city.)

Boilerplate Section 301 states that the funds are to be used for a financial emergency in a school district with the same boundaries as a city with a population of 600,000 or more (Detroit), and that the funds would provide resources for daily operational costs of running the distressed school district. Boilerplate Section 301 also requires the State, the emergency manager, and the distressed school district to enter into an agreement to provide for the expenditure of the funds.

**FISCAL IMPACT**

If the Michigan Financial Review Commission Act were amended (as proposed by House Bill 5385 and Senate Bill 711) to broaden the scope of a financial review commission to include oversight of a school district, then the \$48.7 million appropriated for "distressed public schools financial assistance" could be released to Detroit Public Schools (DPS) for daily operational costs in the 2015-2016 school year. Table 1 from the Department of Treasury illustrates the estimated legacy obligations and start-up costs related to DPS and the establishment of a "new" community district, proposed by the Governor and under other pending legislation:

**Table 1**

<b>Detroit Public Schools' Estimated Legacy and Start-Up Costs As of June 30, 2016 (Dollars in Millions)</b>	
Series 2011/2012 bonds.....	\$214.0
FY 2015-16 short-term note payments .....	52.0
Deferred pension (through FY 2014-15) .....	76.0
Deferred pension (FY 2015-16 estimate) .....	81.0
Deferred accounts payable (>90 days past due) .....	47.0
FY 2015-16 cash shortfall estimate: funded in this supplemental ....	<u>45.0</u>
Total before start-up costs .....	\$515.0
Start-up costs/reinvestment financing .....	<u>200.0</u>
<b>Total .....</b>	<b>\$715.0</b>

**Source:** Department of Treasury

As shown, Treasury estimated the FY 2015-16 cash shortfall at \$45.0 million, and this bill would provide sufficient funding to cover that estimated shortfall in the current year, thereby providing enough cash flow to keep DPS operating past the April 8 date on which the district's transition manager has stated DPS will run out of cash.

The use of Merit Award Trust Fund revenue would deplete the estimated FY 2015-16 year-end balance as shown in Table 2.

**Table 2**

<b>Michigan Merit Award Trust Fund Revenue and Appropriations FY 2015-16 Year-To-Date (Dollars in Millions)</b>	
Net Revenue to Merit Award Trust Fund.....	\$161.4
<u>Merit Award Trust Fund Appropriations</u>	
Attorney General .....	0.5
Health and Human Services .....	98.4
State Police.....	0.8
Technology, Management, and Budget .....	11.9
Treasury .....	<u>1.1</u>
Total Merit Award Trust Fund Appropriations .....	<u>\$112.7</u>
<b>Projected Year-End Balance.....</b>	<b>\$48.7</b>

The depletion of the FY 2015-16 Merit Award Trust Fund year-end balance would affect the fund sources for the Governor's FY 2016-17 budget recommendation. The Governor incorporated all of the FY 2015-16 Merit Award Trust Fund year-end balance into his FY 2016-17 spending plan. However, the Governor recommended \$50.0 million of General Fund/General Purpose (GF/GP) revenue to pay for the FY 2015-16 DPS cash shortfall, so that revenue, if appropriated, could be used to replace the depleted Merit Award Trust Fund revenue.

**BOILERPLATE LANGUAGE SECTIONS**

**Sec. 201. General.** Records amount of total State spending and payments to local units of government.

**Sec. 202. General.** Subjects appropriations and expenditures in the bill to the Management and Budget Act.

**Sec. 301. Department of Treasury.** Requires funds appropriated for distressed public schools financial assistance to be used for a financial emergency in a school district in a city with a population of 600,000 or more (Detroit); requires the distressed school district to be subject to the Financial Review Commission before funds can be released by the State Treasurer.

Date Completed: 3-22-16

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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.