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**BILL ANALYSIS**

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House Bill 5385 (Substitute H-3 as passed by the House)  
Sponsor: Representative Earl Poleski  
House Committee: Appropriations

**CONTENT**

The bill would amend the Michigan Financial Review Commission Act to do the following:

- Provide for the Financial Review Commission for Detroit also to be the Financial Review Commission for a "qualified school district".
- Give the Commission generally the same oversight of the district as it has for the city.
- Require the Commission, if it were the Financial Review Commission for both the city and the district, to include as members the superintendent of the district and the chairperson of the school board, in addition to the mayor or chief executive officer of the city and the president or chairperson of the city's governing body.
- Provide that the district superintendent and school board chairperson would not have a vote on matters relating to the city, and the mayor or chief executive officer of the city and the president or chairperson of its governing body would not have a vote on matters relating to the district.
- Require the Commission to ensure that the district was in compliance with the Revised School Code, the Public School Employees Retirement Act, and Article 1 (State Aid to Public Schools, Early Childhood, and Adult Education) of the State School Aid Act.
- Require the Commission to approve the appointment of the district's superintendent; provide that the district could not alter the terms and conditions of the superintendent's employment contract or benefits, or terminate the superintendent, without approval of the Commission; and provide that the superintendent and the school board chairperson would not have a vote on an approval under these provisions.
- Provide that the Commission for the district could not dissolve itself until 1) the State Treasurer certified the payment in full of all outstanding current obligations of the district from which functions and responsibilities were transferred to the qualified district; and 2) the qualified district had been in compliance with the Act for the preceding 10 years.

The Act creates a Financial Review Commission for a "qualified city", which is a city with a population of more than 600,000 that is subject to a plan of adjustment of its debts approved and entered by a U.S. bankruptcy court under Chapter 9 of Title 11 of the United States Code (i.e., Detroit).

Under the bill, a Financial Review Commission would be created for both a qualified city and a qualified school district, which would be either of the following:

- A community district organized under the Revised School Code to which the functions of another school district had been transferred under the Code.
- A school district with the same boundaries as a city with a population of 600,000 or more that is not described in the previous provision.

The bill is tie-barred to House Bill 5296, which 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 not be released unless the distressed school district were subject to a Financial Review Commission under the Michigan Financial Review Commission Act.

MCL 141.1632 et al.

Legislative Analyst: Suzanne Lowe

### **FISCAL IMPACT**

State: If the Department of Treasury's Financial Review Commission required additional staff, services, contracts, or supplies in order to review a qualified school district, in addition to the City of Detroit, then there would be increased State costs. Under current law, a Financial Review Commission already exists for review of the City of Detroit, and under the bill, the Commission's role would be expanded to review the finances of the "new" Detroit school system. The Department of Treasury has estimated that the additional cost to the Financial Review Commission for oversight of the "new" system would be \$1.0 million, which would be used primarily to support outside assistance and expertise to assist with necessary review and analysis on both the financial and academic sides of the district, as well as the transition itself from the "old" to the "new" system.

Local: The Financial Review Commission would be required to review and approve applicable contracts and collective bargaining agreements (CBAs) of the qualified school district (other than those approved by an emergency manager), and the school district would not be able to execute CBAs until approved by the Commission. It appears that the contracts in place on the transfer date would remain in place, but new contracts and CBAs would be subject to approval by the Commission. Therefore, there could be some fiscal impact on the district if the Commission's approvals or disapprovals of contracts and CBAs caused the district to change its financial planning compared to what it would have done in the absence of Commission oversight.

Similarly, the bill would allow the Commission to revise a revenue estimate prepared in connection with a budget of the qualified district if the Commission determined that the revenue estimate was not based on reasonable assumptions, which could lead to adjustments in the district's budget. Also, the bill would allow the Commission to review, modify, and approve proposed and amended operational budgets of the qualified district, and the proposed budget would not take effect unless approved by the Commission. Therefore, again, there could be some fiscal impact on the district if the oversight of the Commission caused it to use a different set of revenue and expenditures than it would in the absence of the oversight.

Date Completed: 3-23-16

Fiscal Analyst: Kathryn Summers

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