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BILL ANALYSIS



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House Bill 5385 (as enacted)
Sponsor: Representative Earl Poleski
House Committee: Appropriations

PUBLIC ACT 53 of 2016

Date Completed: 11-3-17

CONTENT

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

- Provide for the Financial Review Commission for the City of Detroit also to be the Financial Review Commission for a "qualified school district" (Detroit Public Schools).
- Give the Commission generally the same oversight of the district as it has for the city.
- Require the Commission, if it is 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 do 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 do not have a vote on matters relating to the district.
- Require the Commission to ensure that the district is 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 chief financial officer; provide that the district may not terminate its chief financial officer without the approval of the Commission; and provide that the superintendent and the school board chairperson will not have a vote on an approval under these provisions.
- Provide that the Commission for the district may not dissolve itself until the State Treasurer certifies that all outstanding debts of the district are paid in full.
- Provide that if the district is subject to an emergency manager under the Local Financial Stability and Choice Act, then, for the period of time that the district is subject to an emergency manager, it is not subject to oversight by the Financial Review Commission.

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).

The bill defines "qualified school district" as a school district with the same boundaries as a city with a population of 600,000 or more, unless the functions and responsibilities of that school district have been transferred to another district under the Revised School Code.

The bill was tie-barred to House Bill 5296 (Public Act 54 of 2016), which made supplemental appropriations to the Department of Treasury in the amount of \$48.7 million for distressed public schools financial assistance. The appropriation could not be released unless the

distressed school district was 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 requires additional staff, services, contracts, or supplies in order to review a qualified school district, in addition to the City of Detroit, then there will be increased State costs. A Financial Review Commission already existed for review of the City of Detroit, and under the bill, the Commission's role is expanded to review the finances of the "new" Detroit school system. The Department of Treasury estimated the additional cost to the Financial Review Commission for oversight of the "new" system to be \$1.0 million, 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 is 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 cannot execute CBAs until approved by the Commission. The contracts in place on the transfer date apparently were to remain in place, but new contracts and CBAs will be subject to approval by the Commission. Therefore, there might be some fiscal impact on the district if the Commission's approvals or disapprovals of contracts and CBAs causes the district to change its financial planning compared to what it would have done in the absence of Commission oversight.

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

Fiscal Analyst: Kathryn Summers

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