

**SUBSTITUTE FOR
HOUSE BILL NO. 4330**

A bill to amend 1979 PA 94, entitled
"The state school aid act of 1979,"
by amending sections 17a and 18 (MCL 388.1617a and 388.1618),
section 17a as amended by 2014 PA 196 and section 18 as amended by
2015 PA 5.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 17a. (1) The department may withhold all or part of any
2 payment that a district or intermediate district is entitled to
3 receive under this article to the extent the withholdings are a
4 component part of a plan, developed and implemented pursuant to the
5 revised municipal finance act, 2001 PA 34, MCL 141.2101 to
6 141.2821, the emergency municipal loan act, 1980 PA 243, MCL
7 141.931 to 141.942, the local financial stability and choice act,
8 2012 PA 436, MCL 141.1541 to 141.1575, **SECTION 1356 OF THE REVISED**
9 **SCHOOL CODE, MCL 380.1356**, or other statutory authority, for

1 financing an outstanding obligation upon which the district or
2 intermediate district defaulted or for other financial obligations
3 of the district or intermediate district. Amounts withheld shall be
4 used to pay, on behalf of the district or intermediate district,
5 unpaid amounts or subsequently due amounts, or both, of principal
6 and interest on the outstanding obligation upon which the district
7 or intermediate district defaulted.

8 (2) The state treasurer may withhold all or part of any
9 payment that a district or intermediate district is entitled to
10 receive under this article to the extent authorized or required
11 under section 15 of the school bond qualification, approval, and
12 loan act, 2005 PA 92, MCL 388.1935, the emergency municipal loan
13 act, 1980 PA 243, MCL 141.931 to 141.942, the local financial
14 stability and choice act, 2012 PA 436, MCL 141.1541 to 141.1575,
15 **SECTION 1356 OF THE REVISED SCHOOL CODE, MCL 380.1356**, or other
16 statutory authority.

17 (3) Under an agreement entered into by a district or
18 intermediate district assigning all or a portion of the payment
19 that it is eligible to receive under this article to the Michigan
20 finance authority or to the trustee of a pooled arrangement or
21 pledging the amount for payment of an obligation it incurred with
22 the Michigan finance authority or with the trustee of a pooled
23 arrangement, the state treasurer shall transmit to the Michigan
24 finance authority or a trustee designated by the Michigan finance
25 authority or to the trustee of a pooled arrangement or other
26 designated depository the amount of the payment that is assigned or
27 pledged under the agreement.

1 (4) If a district or intermediate district for which an
2 emergency manager is in place under the local financial stability
3 and choice act, 2012 PA 436, MCL 141.1541 to 141.1575, or that has
4 an approved deficit elimination plan or an approved enhanced
5 deficit elimination plan under section 102, ~~THE REVISED SCHOOL~~
6 **CODE**, enters into or has entered into an agreement described in
7 subsection (3) pursuant to section 1225(2) of the revised school
8 code, MCL 380.1225, whether the obligation was issued before or
9 after the effective date of this subsection, the portion of state
10 school aid paid or to be paid on behalf of the district or
11 intermediate district directly to the Michigan finance authority,
12 or to a trustee designated by the Michigan finance authority, for
13 the sole purpose of paying the principal of and interest on the
14 obligation is subject to a lien and trust that is a statutory lien
15 and trust, paramount and superior to all other liens and interests
16 of any kind, for the sole purpose of paying the principal of and
17 interest on the obligation. The statutory lien and trust applies to
18 the state school aid received or to be received by the Michigan
19 finance authority, or trustee designated by the Michigan finance
20 authority, on behalf of the district or intermediate district,
21 immediately upon the ~~later of the effective date of this subsection~~
22 ~~or the time when the state school aid is allocated to the district~~
23 or intermediate district, but is subject to any subsequent
24 reduction of the state school aid allocation by operation of law or
25 executive order. The lien and trust imposed by this section with
26 respect to state school aid has a priority as established in the
27 agreement, except that the agreement shall not impair any existing

1 lien and trust previously created pursuant to this section,
2 including any lien and trust applicable to a multi-year repayment
3 agreement under section 1225 of the revised school code, MCL
4 380.1225. Except as otherwise provided in this subsection, the lien
5 and trust created under this subsection for the benefit of holders
6 of the obligation issued pursuant to this section is valid and
7 binding against a party having a claim of any kind in tort,
8 contract, or otherwise against the district or intermediate
9 district that has issued the obligation secured by a pledge of
10 state school aid pursuant to this section, regardless of whether
11 that party has notice of the pledge. A pledge made pursuant to this
12 section for the benefit of the holders of obligations or others is
13 perfected without delivery, recording, or notice. The state school
14 aid paid or to be paid on behalf of a district or intermediate
15 district to the Michigan finance authority, or trustee designated
16 by the Michigan finance authority, shall be held in trust for the
17 sole benefit of the holders of the obligation issued pursuant to
18 this section or section 1225 of the revised school code, MCL
19 380.1225, and is exempt from being levied upon, taken, sequestered,
20 or applied toward paying the debts or liabilities of the district
21 or intermediate district other than for payment of the obligation
22 to which the lien applies. However, nothing in this subsection
23 alters the ability of the state treasurer to withhold state school
24 aid from a district or intermediate district as provided by law.

25 (5) Notwithstanding the payment dates prescribed by this
26 article for distributions under this article, the state treasurer
27 may advance all or part of a payment that is dedicated for

1 distribution or for which the appropriation authorizing the payment
2 has been made if and to the extent, under the terms of an agreement
3 entered into by a district or intermediate district and the
4 Michigan finance authority, the payment that the district or
5 intermediate district is eligible to receive has been assigned to
6 or pledged for payment of an obligation it incurred with the
7 Michigan finance authority.

8 (6) This section does not require the state to make an
9 appropriation to any school district or intermediate school
10 district and shall not be construed as creating an indebtedness of
11 the state, and any agreement made pursuant to this section shall
12 contain a statement to that effect.

13 (7) As used in this section, "trustee of a pooled arrangement"
14 means the trustee of a trust approved by the state treasurer and,
15 subject to the conditions and requirements of that approval,
16 established for the purpose of offering for sale, as part of a
17 pooled arrangement, certificates representing undivided interests
18 in notes issued by districts or intermediate districts under
19 section 1225 of the revised school code, MCL 380.1225.

20 (8) If a trustee applies to the state treasurer for approval
21 of a trust for the purposes of this section, the state treasurer
22 shall approve or disapprove the trust within 10 days after receipt
23 of the application.

24 **(9) AN ALLOCATION TO A DISTRICT OR INTERMEDIATE DISTRICT UNDER**
25 **THIS ARTICLE IS CONTINGENT UPON THE DISTRICT'S OR INTERMEDIATE**
26 **DISTRICT'S COMPLIANCE WITH THIS SECTION.**

27 Sec. 18. (1) Except as provided in another section of this

1 article, each district or other entity shall apply the money
2 received by the district or entity under this article to salaries
3 and other compensation of teachers and other employees, tuition,
4 transportation, lighting, heating, ventilation, water service, the
5 purchase of textbooks, other supplies, and any other school
6 operating expenditures defined in section 7. However, not more than
7 20% of the total amount received by a district under sections 22a
8 and 22b or received by an intermediate district under section 81
9 may be transferred by the board to either the capital projects fund
10 or to the debt retirement fund for debt service. The money shall
11 not be applied or taken for a purpose other than as provided in
12 this section. The department shall determine the reasonableness of
13 expenditures and may withhold from a recipient of funds under this
14 article the apportionment otherwise due upon a violation by the
15 recipient.

16 (2) **A DISTRICT OR INTERMEDIATE DISTRICT SHALL ADOPT AN ANNUAL**
17 **BUDGET IN A MANNER THAT COMPLIES WITH THE UNIFORM BUDGETING AND**
18 **ACCOUNTING ACT, 1968 PA 2, MCL 141.421 TO 141.440A.** Within 15 days
19 after a **DISTRICT** board adopts its annual operating budget for the
20 following school fiscal year, or after a **DISTRICT** board adopts a
21 subsequent revision to that budget, the district shall make all of
22 the following available through a link on its website ~~home page,~~
23 **HOME PAGE**, or may make the information available through a link on
24 its intermediate district's website ~~home page,~~ **HOME PAGE**, in a form
25 and manner prescribed by the department:

26 (a) The annual operating budget and subsequent budget
27 revisions.

1 (b) Using data that have already been collected and submitted
2 to the department, a summary of district expenditures for the most
3 recent fiscal year for which they are available, expressed in the
4 following 2 pie charts:

5 (i) A chart of personnel expenditures, broken into the
6 following subcategories:

7 (A) Salaries and wages.

8 (B) Employee benefit costs, including, but not limited to,
9 medical, dental, vision, life, disability, and long-term care
10 benefits.

11 (C) Retirement benefit costs.

12 (D) All other personnel costs.

13 (ii) A chart of all district expenditures, broken into the
14 following subcategories:

15 (A) Instruction.

16 (B) Support services.

17 (C) Business and administration.

18 (D) Operations and maintenance.

19 (c) Links to all of the following:

20 (i) The current collective bargaining agreement for each
21 bargaining unit.

22 (ii) Each health care benefits plan, including, but not limited
23 to, medical, dental, vision, disability, long-term care, or any
24 other type of benefits that would constitute health care services,
25 offered to any bargaining unit or employee in the district.

26 (iii) The audit report of the audit conducted under subsection
27 (4) for the most recent fiscal year for which it is available.

1 (iv) The bids required under section 5 of the public ~~employee~~
2 **EMPLOYEES** health benefits act, 2007 PA 106, MCL 124.75.

3 (v) The district's written policy governing procurement of
4 supplies, materials, and equipment.

5 (vi) The district's written policy establishing specific
6 categories of reimbursable expenses, as described in section
7 1254(2) of the revised school code, MCL 380.1254.

8 (vii) Either the district's accounts payable check register for
9 the most recent school fiscal year or a statement of the total
10 amount of expenses incurred by board members or employees of the
11 district that were reimbursed by the district for the most recent
12 school fiscal year.

13 (d) The total salary and a description and cost of each fringe
14 benefit included in the compensation package for the superintendent
15 of the district and for each employee of the district whose salary
16 exceeds \$100,000.00.

17 (e) The annual amount spent on dues paid to associations.

18 (f) The annual amount spent on lobbying or lobbying services.
19 As used in this subdivision, "lobbying" means that term as defined
20 in section 5 of 1978 PA 472, MCL 4.415.

21 (g) Any deficit elimination plan or enhanced deficit
22 elimination plan the district was required to submit under ~~this~~
23 ~~article.~~ **THE REVISED SCHOOL CODE.**

24 (h) Identification of all credit cards maintained by the
25 district as district credit cards, the identity of all individuals
26 authorized to use each of those credit cards, the credit limit on
27 each credit card, and the dollar limit, if any, for each

1 individual's authorized use of the credit card.

2 (i) Costs incurred for each instance of out-of-state travel by
3 the school administrator of the district that is fully or partially
4 paid for by the district and the details of each of those instances
5 of out-of-state travel, including at least identification of each
6 individual on the trip, destination, and purpose.

7 (3) For the information required under subsection (2)(a),
8 (2)(b)(i), and (2)(c), an intermediate district shall provide the
9 same information in the same manner as required for a district
10 under subsection (2).

11 (4) For the purposes of determining the reasonableness of
12 expenditures, whether a district or intermediate district has
13 received the proper amount of funds under this article, and whether
14 a violation of this article has occurred, all of the following
15 apply:

16 (a) The department shall require that each district and
17 intermediate district have an audit of the district's or
18 intermediate district's financial and pupil accounting records
19 conducted at least annually, and at such other times as determined
20 by the department, at the expense of the district or intermediate
21 district, as applicable. The audits must be performed by a
22 certified public accountant or by the intermediate district
23 superintendent, as may be required by the department, or in the
24 case of a district of the first class by a certified public
25 accountant, the intermediate superintendent, or the auditor general
26 of the city. A district or intermediate district shall retain these
27 records for the current fiscal year and from at least the 3

1 immediately preceding fiscal years.

2 (b) If a district operates in a single building with fewer
3 than 700 full-time equated pupils, if the district has stable
4 membership, and if the error rate of the immediately preceding 2
5 pupil accounting field audits of the district is less than 2%, the
6 district may have a pupil accounting field audit conducted
7 biennially but must continue to have desk audits for each pupil
8 count. The auditor must document compliance with the audit cycle in
9 the pupil auditing manual. As used in this subdivision, "stable
10 membership" means that the district's membership for the current
11 fiscal year varies from the district's membership for the
12 immediately preceding fiscal year by less than 5%.

13 (c) A district's or intermediate district's annual financial
14 audit shall include an analysis of the financial and pupil
15 accounting data used as the basis for distribution of state school
16 aid.

17 (d) The pupil and financial accounting records and reports,
18 audits, and management letters are subject to requirements
19 established in the auditing and accounting manuals approved and
20 published by the department.

21 (e) All of the following shall be done ~~not later than November~~
22 ~~15, 2014 for reporting 2013-2014 data during 2014-2015, and not~~
23 later than November 1 for reporting the prior fiscal year data: ~~for~~
24 ~~all subsequent fiscal years.~~

25 (i) A district shall file the annual financial audit reports
26 with the intermediate district and the department.

27 (ii) The intermediate district shall file the annual financial

1 audit reports for the intermediate district with the department.

2 (iii) The intermediate district shall enter the pupil membership
3 audit reports for its constituent districts and for the
4 intermediate district, for the pupil membership count day and
5 supplemental count day, in the Michigan student data system.

6 (f) The annual financial audit reports and pupil accounting
7 procedures reports shall be available to the public in compliance
8 with the freedom of information act, 1976 PA 442, MCL 15.231 to
9 15.246.

10 (g) Not later than January 31 of each year, the department
11 shall notify the state budget director and the legislative
12 appropriations subcommittees responsible for review of the school
13 aid budget of districts and intermediate districts that have not
14 filed an annual financial audit and pupil accounting procedures
15 report required under this section for the school year ending in
16 the immediately preceding fiscal year.

17 (5) By ~~November 15, 2014 for 2014-2015 and by November 1 for~~
18 ~~all subsequent fiscal years,~~ **NOVEMBER 1 EACH FISCAL YEAR,** each
19 district and intermediate district shall submit to the center, in a
20 manner prescribed by the center, annual comprehensive financial
21 data consistent with accounting manuals and charts of accounts
22 approved and published by the department. For an intermediate
23 district, the report shall also contain the website address where
24 the department can access the report required under section 620 of
25 the revised school code, MCL 380.620. The department shall ensure
26 that the prescribed Michigan public school accounting manual chart
27 of accounts includes standard conventions to distinguish

1 expenditures by allowable fund function and object. The functions
2 shall include at minimum categories for instruction, pupil support,
3 instructional staff support, general administration, school
4 administration, business administration, transportation, facilities
5 operation and maintenance, facilities acquisition, and debt
6 service; and shall include object classifications of salary,
7 benefits, including categories for active employee health
8 expenditures, purchased services, supplies, capital outlay, and
9 other. Districts shall report the required level of detail
10 consistent with the manual as part of the comprehensive annual
11 financial report.

12 (6) By September 30 of each year, each district and
13 intermediate district shall file with the department the special
14 education actual cost report, known as "SE-4096", on a form and in
15 the manner prescribed by the department.

16 (7) By October 7 of each year, each district and intermediate
17 district shall file with the center the transportation expenditure
18 report, known as "SE-4094", on a form and in the manner prescribed
19 by the center.

20 (8) The department shall review its pupil accounting and pupil
21 auditing manuals at least annually and shall periodically update
22 those manuals to reflect changes in this article.

23 (9) If a district that is a public school academy purchases
24 property using money received under this article, the public school
25 academy shall retain ownership of the property unless the public
26 school academy sells the property at fair market value.

27 (10) If a district or intermediate district does not comply

1 with subsections (4), (5), (6), and (7), the department shall
2 withhold all state school aid due to the district or intermediate
3 district under this article, beginning with the next payment due to
4 the district or intermediate district, until the district or
5 intermediate district complies with subsections (4), (5), (6), and
6 (7). However, the department shall not withhold the payment due on
7 October 20 due to the operation of this subsection. If the district
8 or intermediate district does not comply with subsections (4), (5),
9 (6), and (7) by the end of the fiscal year, the district or
10 intermediate district forfeits the amount withheld.

11 **(11) IF A DISTRICT OR INTERMEDIATE DISTRICT DOES NOT COMPLY**
12 **WITH SUBSECTION (2), THE DEPARTMENT MAY WITHHOLD UP TO 10% OF THE**
13 **TOTAL STATE SCHOOL AID DUE TO THE DISTRICT OR INTERMEDIATE DISTRICT**
14 **UNDER THIS ARTICLE, BEGINNING WITH THE NEXT PAYMENT DUE TO THE**
15 **DISTRICT OR INTERMEDIATE DISTRICT, UNTIL THE DISTRICT OR**
16 **INTERMEDIATE DISTRICT COMPLIES WITH SUBSECTION (2). IF THE DISTRICT**
17 **OR INTERMEDIATE DISTRICT DOES NOT COMPLY WITH SUBSECTION (2) BY THE**
18 **END OF THE FISCAL YEAR, THE DISTRICT OR INTERMEDIATE DISTRICT**
19 **FORFEITS THE AMOUNT WITHHELD.**

20 **(12) ~~(11)~~**Not later than November 1, 2014, if a district or
21 intermediate district offers online learning under section 21f, the
22 district or intermediate district shall submit to the department a
23 report that details the per-pupil costs of operating the online
24 learning by vendor type. The report shall include at least all of
25 the following information concerning the operation of online
26 learning for the school fiscal year ending June 30, 2014:

27 (a) The name of the district operating the online learning and

1 of each district that enrolled students in the online learning.

2 (b) The total number of students enrolled in the online
3 learning and the total number of membership pupils enrolled in the
4 online learning.

5 (c) For each pupil who is enrolled in a district other than
6 the district offering online learning, the name of that district.

7 (d) The district in which the pupil was enrolled before
8 enrolling in the district offering online learning.

9 (e) The number of participating students who had previously
10 dropped out of school.

11 (f) The number of participating students who had previously
12 been expelled from school.

13 (g) The total cost to enroll a student in the program. This
14 cost shall be reported on a per-pupil, per-course, per-semester or
15 trimester basis by vendor type. The total shall include costs
16 broken down by cost for content development, content licensing,
17 training, online instruction and instructional support, personnel,
18 hardware and software, payment to each online learning provider,
19 and other costs associated with operating online learning.

20 (h) The name of each online education provider contracted by
21 the district and the state in which each online education provider
22 is headquartered.

23 (13) ~~(12)~~ Not later than March 31, 2015, the department shall
24 submit to the house and senate appropriations subcommittees on
25 state school aid, the state budget director, and the house and
26 senate fiscal agencies a report summarizing the ~~per-pupil~~ **PER-PUPIL**
27 costs by vendor type of online courses available under section 21f.

1 (14) ~~(13)~~ As used in subsections ~~(11) and (12)~~, **(12) AND (13)**,
2 "vendor type" means the following:

3 (a) Online courses provided by the Michigan ~~virtual~~
4 ~~university~~. **VIRTUAL UNIVERSITY.**

5 (b) Online courses provided by a school of excellence that is
6 a cyber school, as defined in section 551 of the revised school
7 code, MCL 380.551.

8 (c) Online courses provided by third party vendors not
9 affiliated with a Michigan public school.

10 (d) Online courses created and offered by a district or
11 intermediate district.

12 **(15) AN ALLOCATION TO A DISTRICT OR ANOTHER ENTITY UNDER THIS**
13 **ARTICLE IS CONTINGENT UPON THE DISTRICT'S OR ENTITY'S COMPLIANCE**
14 **WITH THIS SECTION.**

15 Enacting section 1. This amendatory act takes effect 90 days
16 after the date it is enacted into law.

17 Enacting section 2. This amendatory act does not take effect
18 unless all of the following bills of the 98th Legislature are
19 enacted into law:

20 (a) House Bill No. 4325.

21 (b) House Bill No. 4327.

22 (c) House Bill No. 4328.