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Senate Bill 393 (Substitute S-1 as reported)
Sponsor: Senator Wayne Kuipers
Committee: Education

CONTENT

The bill would amend Part 6A (Public School Academies) of the Revised School Code to:

- Provide for a graduated increase in the number of public school academies (PSAs) chartered by State public universities, capping the number at 450 in the year 2011.
- Restrict the number of contracts issued by State public universities for high school PSAs to five per year until 2012.
- Permit PSAs to issue bonds.
- Remove the prohibition against a community college's chartering a PSA in the Detroit school district.
- Allow two or more existing charter schools to establish a new charter school (a joint high school) and exempt joint high schools from the proposed five-per-year cap.
- Require authorizing bodies to hold a PSA board of directors accountable for the school's academic performance.
- Provide that a PSA's board of directors would have to make available to the public information concerning its membership, operation and management, financial standing, teacher salary and certification, and health and safety.
- Allow PSAs to give enrollment priorities to siblings of students, children of employees and board members, and students of PSAs that formed a joint high school.

The bill also would add Part 6C (Urban High School Academies) to the Code to allow a State public university to issue up to 15 contracts for "urban high school academies" in the Detroit school district on a competitive basis. An urban high school academy would have to include at least grades 9 through 12 within five years after beginning operation, and could include other grades as specified in its contract. Contract priority would have to be given to entities with net assets of at least \$50 million, that had a stated goal of increasing high school graduation rates, and that would operate at least grades 9-12 within three years of beginning operation.

In addition, the bill would amend the Code to regulate public schools' contracts with educational management companies.

MCL 380.501 et al.

Legislative Analyst: Claire Layman

FISCAL IMPACT

The State would experience a fiscal impact under the bill in two ways: paying additional foundation allowance funds for new pupils in membership due to the increase in the "cap", and receiving returned funds upon dissolution of a PSA during a school year.

A similar fiscal impact would arise from the new urban high school academies. A total of 15 new academies would be allowed to open in the Detroit School District under the bill. If one assumed the 15 academies each housed 350 students, and all opened in the first year, the to

these schools would cost the State \$14 million in the first and second years, and \$8.5 million yearly thereafter.

The School Aid Act defines a pupil in membership as 80% weighted on the current-year fall pupil count, plus 20% weighted on the previous-year February count. However, during a PSA's first two full years of operation, the PSA is paid for pupils weighted on a current-year basis: 50% of the pupils counted in the current fall plus 50% of the pupils counted in the following February. Combining this method of paying for a new PSA's pupils with a historical survey that 25% of a PSA's pupils come from outside of the existing public school system (i.e., from private schools or home schools), leads to an additional cost to the State from increasing the charter school "cap" by 30 per year. Estimating this cost (assuming an average PSA size of 350 students, a per-pupil payment of \$6,700, and that all 30 new schools would open each year) yields an additional foundation allowance payout from the School Aid budget of \$28 million in the first year, \$56 million in the second year, and then an additional (cumulative) cost of \$17 million per year through 2013, when the maximum estimated additional cost under the given assumptions would be \$208 million. Thereafter, the yearly cost of this legislation under the given assumptions would be \$170 million. This estimate hinges on the assumptions that all 30 new schools would open each year, that the size of each school would be 350 pupils, and that 25% of those 350 pupils would come from outside of the existing public school system. It is possible that after a certain point, the percentage of pupils coming into the new charter schools from outside of the existing public school system would drop, thereby reducing the fiscal impact on the State.

On the other side, under Section 507(7), if an authorizing body revoked a contract during a school year, the authorizing body would have to return to the State Treasurer any School Aid funds received by the authorizing body attributable to the affected pupils, for deposit into the School Aid Fund.

For PSAs, the bill includes several provisions that carry fiscal impacts. First, the bill would allow PSAs to borrow money by issuing bonds for capital needs. Though the PSAs still would not have taxing authority, it is anticipated that by having bonding authority, PSAs could possibly see decreased capital costs through increased borrowing flexibility, though an actual fiscal estimate is not practicable.

Second, by requiring PSAs that would be conversions of existing programs of intermediate school districts to cover employees of the PSAs according to the collective bargaining agreements of the ISD, additional costs to the PSA could arise if the value of the ISD collective bargaining agreements were to exceed what the PSA would have otherwise compensated its employees. The opposite is also true, making the fiscal impact of this provision indeterminate.

Third, authorizers (as local units of government) could see increased costs due to the proposed restriction that authorizer fees could not be used to support any activities other than technical support to the PSA, considering applications, issuing contracts, oversight, and direct academic support to the PSA. If an authorizer is currently using the authorizer fee to support activities other than those listed above, the authorizer would face increased costs if it wanted to continue funding those other activities.

Fourth, the bill includes explicit instructions to PSAs for advertising enrollment openings and procedures. If a PSA is not currently undertaking the enrollment advertising to the extent proposed, increased costs would result as the PSA complied with the new provisions.

Date Completed: 6-17-03

Fiscal Analyst: Kathryn Summers-Coty

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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.