



Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bills 943 and 944 (Substitute S-2 as passed by the Senate)

Sponsor: Senator Dayna Polehanki (S.B. 943)

Senator Rosemary Bayer (S.B. 944)

Committee: Education

Date Completed: 1-8-25

CONTENT

Senate Bill 944 (S-2) would amend the Revised School Code to do the following:

- **Apply current provisions regarding financial disclosures for public school academies (PSAs), schools of excellence, and urban high school academies to strict discipline academies.**
- **Require a management agreement entered or renewed after the bill's effective date to include provisions requiring an educational management organization to annually provide to a charter school's board of directors an audited financial statement and a description of each fringe benefit included in an employee, officer, or board member's compensation package if that individual made over \$100,000 per year and was involved in the charter school's day-to-day operations.**
- **Require this information to be made publicly available on a charter school's website.**

Senate Bill 943 (S-2) would amend the State School Aid Act to do require a school district or ISD to make available on its public website financial statements provided by an educational management organization, detailed accountings provided by the authorizing body of a charter school concerning expenditures, and notices of noncompliance with applicable education standards, guidelines, or rules.

Each bill would take effect 90 days after its enactment. Senate Bill 943 is tie-barred to Senate Bills 944 and 946, which would amend the Revised School Code to require an authorizing body to perform specific oversight for each charter schools.

Senate Bill 944 (S-2)

The Code allows an authorizing body to contract with an interested person or entity for the creation of one or more PSAs, schools of excellence, strict discipline academies, or urban high school academies. As these schools are created by *charter* contracts, they are referred to as charter schools. (For more information, see **BACKGROUND**).

Currently, if the board of directors of a PSA, school of excellence, or urban high school academy enters into or renews a management agreement with an education management organization to carry out the operations of the charter school, the Code provides that the management agreement must include a requirement that the education management organization provide to the board of directors at least annually all the same information that a school district is required to disclose for the most recent school fiscal year for which

information is available.¹ (For specifics, see **Senate Bill 943 (S-2)**). Within 30 days after receiving this information, the board of directors of the PSA, school of excellence, or urban high school academy must make it available through a link on the charter school's website homepage, in a form and manner prescribed by the Michigan Department of Education (MDE). The bill would apply these provisions to strict discipline academies.

Under the bill, if the board of directors of a PSA, school of excellence, urban high school academy, or strict discipline academy entered or renewed a management agreement with an educational management organization after the bill's effective date, the following would apply to that management agreement:

- The management agreement would have to include a requirement that the educational management organization provide to the board of directors, at least annually, audited financial statements for the educational management organization concerning the immediately preceding fiscal year that disclosed the specific financial expenditures of the money received by the educational management organization under the management agreement, including expenditures made as a result of subcontracts; the financial statement would have to account for all funds retained as compensation by the educational management organization.²
- The management agreement would have to include a requirement that the educational management organization provide to the board of directors, for each employee, officer, or board member of the educational management organization who was involved in day-to-day operations and staffing at the charter school, including the charter school's leadership team and teachers, and whose compensation exceeded \$100,000 per year, a list providing a description and cost of each fringe benefit that was included in the individual's compensation package.

Within 30 days after receiving this information, the board of directors of a PSA, school of excellence, urban high school academy, or strict discipline academy would have to make this information and other information provided by the management agreement available through a link on the charter school's website homepage, in a form and manner prescribed by the MDE.

Senate Bill 943 (S-2)

Among other things, the State School Aid Act requires a school district or ISD to adopt an annual budget. Within 15 days after a district board adopts its annual operating budget for the following school fiscal year, or after a district board adopts a revision to that budget, the district must make certain financial information public through a link on its website homepage. This information must include the district or ISD's annual operating budget and subsequent budget revisions, a summary of personnel costs and other expenditures, the annual amount spent on lobbying or lobbying services, and more.

The bill would require a district that was a PSA to make the following information publicly available in addition to that already required:

¹ Generally, a school's fiscal year begins July 1 and ends June 30 of the following year.

² Compensation would mean the difference between the sum of all fees, commissions, payments, and charges assessed to the charter school by the educational management organization for the operation and management of the charter school during the educational management organization's fiscal year and the amount actually expended.

- Financial statements provided by an educational management organization that had a management agreement with the district, if applicable; the statements would have to disclose the specific financial expenditures of the money received by the educational management organization under the management agreement and account for all funds retained as compensation by the educational management organization.
- A detailed accounting provided to the district by the authorizing body of all fees, reimbursements, or other charges collected or retained by, and all expenditures made by, the district's authorizing body for the current fiscal year, including an itemized list of use and purpose, if applicable.
- Copies of any letters or other notices received by the district indicating noncompliance with a standard, guideline, or rule of the State Board of Education, Superintendent of Public Instruction, MDE, or, if applicable, authorizing body.
- A copy of the PSA's management agreement, a copy of any lease agreement for real property, a copy of the appraisal required by Senate Bill 947 (S-3), and other reports required by the Revised School Code.

MCL 388.1618 (S.B. 943)
380.503c et al. (S.B. 944)

PREVIOUS LEGISLATION

(This section does not provide a comprehensive account of previous legislative efforts on this subject matter.)

Senate Bill 943 is similar to Senate Bill 674 of the 2017-2018 Legislative Session. Senate Bill 944 is a reintroduction of Senate Bill 675 of the 2017-2018 Legislative Session.

BACKGROUND

Generally, the board of a school district, the board of an ISD, the board of a community college, the board of a public university in the State, or two or more of these bodies under an interlocal agreement may serve as an authorizing body for a PSA, school of excellence, or strict discipline academy. An urban high school academy may *only* be authorized by the board of a State public university. The Code requires the Superintendent of Public Instruction to approve a school of excellence if the proposed school is modelled on a high-performing school or program. An authorizing body may operate a school of excellence as a cyber school if the school's education management organization demonstrates experience in delivering a quality education program that improves pupil academic achievement, among other requirements. The Code allows for the creation of up to 15 cyber schools of excellence. Additionally, a PSA that demonstrates superior academic performance may be converted to a school of excellence. Strict discipline academies are established to serve suspended, expelled, or incarcerated young people.

BRIEF RATIONALE

Public school academies, schools of excellence, urban high school academies, and strict discipline academies are referred to as charter schools because they are created by charter contracts approved by an authorizing body. While traditional public schools are run by superintendents, many charter schools are operated by private for-profit companies called educational management organizations; however, charter schools receive State appropriations. Private companies are not subject to Freedom of Information Act requests and other disclosure requirements, and some believe this creates a lack of transparency surrounding charter school finances that allows educational management organizations to unduly profit from public funds. Accordingly, some have suggested that charter schools be required to publicly disclose certain financial information.

FISCAL IMPACT

The bills would have a fiscal impact on the MDE and a minor fiscal impact on charter schools. The bills would increase costs to the MDE to collect and report the information provided by charter school academies and education management organizations. The MDE's Fiscal Year 2024-25 budget includes \$150,000 to maintain a charter school transparency database.

Fiscal Analyst: Ryan Bergan
Cory Savino, PhD

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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.