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BILL ANALYSIS

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Senate Bill 861 (Substitute S-2 as reported)
Sponsor: Senator Gerald Van Woerkom
Committee: Education

CONTENT

The bill would create the "Michigan Promise Zone Act" to do the following:

-- Permit an eligible entity (a city, township, county, school district, or intermediate school district (ISD) in an area where the percentage of families with children living below the Federal poverty rate is equal to or higher than the State average), after a public hearing, to apply to the Department of Treasury to establish a promise zone and provide a promise of financial assistance for postsecondary education to students who graduated from a public or nonpublic high school within that zone.
-- Limit the promise of financial assistance to an amount sufficient to provide the tuition for an associate's degree or its equivalent at a community or junior college in the State.
-- Require the Department of Treasury to review the application and certify that the governing body was eligible to establish a promise zone.
-- Provide that not more than 10 eligible entities could be certified.
-- Require the governing body, upon certification by the Department, to create a promise zone authority, under the supervision and control of an 11-member board consisting of not more than five government officials and at least one member representing the public school community.
-- Require the authority to develop a promise zone development plan that described the proposed promise of financial assistance and how the funds would be raised, and included a requirement that high school graduates exhaust all other available publicly funded scholarships before receiving financial assistance under the proposed Act.
-- Require the Department of Treasury to review the plan and certify that it met all the bill's requirements and was sustainable.
-- Require the State to capture half of any increase in the State education tax collected in the promise zone beginning the year after the promise zone authority made its initial payment of financial assistance, and pay the captured tax to the authority.
-- Permit a local school district to elect by resolution not to participate in a promise zone, if the resolution provided that the district would establish a separate promise zone.
-- Permit a city, township, county, school district, or ISD that was not an eligible entity to create a promise zone, but prohibit that entity from capturing revenue as described above.
-- Require the Department to oversee the operations of any promise zone authority or board.

In addition, the bill would repeal Enacting Section 1 of Public Act 1 of 2008, which repeals Section 504c of the Revised School Code, effective December 31, 2008. That section permits a public school academy, with the approval of its authorizing body, to transfer its enrolled pupils to another public school.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would reduce State education tax revenue to the School Aid Fund by an estimated $15.3 million or less, based on data from the Kalamazoo Promise, and would increase expenditures from the School Aid Fund by an unknown and potentially significant amount. The bill also would change the distribution of revenue to local units, increasing local property tax revenue in some units while lowering it in others. The net impact of the bill on revenue other than school property tax revenue is unknown and potentially significant for individual local units. The magnitude of the impact would depend upon many variables, including which local units created educational promise zones, the proximity of the zones to one another, the perceived quality of the educational systems affected by zones, the nature of the postsecondary educational commitments in the zones, the ability of the authorities to generate additional funding for disbursements, and the perceived credibility of the "promises".

The bill would allow the creation of only 10 zones, although a zone could cover a region as large as a county. The potential effect upon residency decisions of individuals is unknown: Larger zones would reduce the need for many individuals to relocate in order to avail themselves of a zone's benefits, while fewer zones would increase the need for individuals to relocate. Furthermore, while the bill would allow authorities to sue and be sued, it explicitly would exempt authorities from being held responsible for failing to make payment upon the promised financial commitments. A family that relocated to an area with a zone could do so at a substantial risk: If the authority did not have sufficient funds to fulfill the promise, the family would have no recourse to compensate for the loss. Therefore, many individuals could be unwilling to alter their decisions as a result of the bill.

The City of Kalamazoo adopted a similar plan in 2006 and the effects of that action suggest a range of impacts for the bill. Based on the data for school districts in Kalamazoo County, approximately 80% or more of the increase in pupils in the Kalamazoo School District can account for enrollment declines in nearby school districts located within the county. Furthermore, the data suggest that each 1.0% change in the number of pupils in a district was associated with a change of between 0.5% and 1.0% in the taxable value within the district. However, the Kalamazoo plan offered more generous benefits than the bill proposed, and represented a unique circumstance (which the bill would make less unique).

As a result, using the 1.0% change in taxable value figure, if the bill were applied to the data reflecting the Kalamazoo "promise", State education tax revenue from the Kalamazoo School District would have increased by approximately $1.6 million per year. The bill would have earmarked half of that amount, $0.8 million, for distribution to the local unit to pay for the promised postsecondary financial aid. However, State education tax revenue from surrounding school districts would have been $1.3 million per year lower, all of which would have affected the School Aid Fund. As a result, net School Aid Fund revenue would have been $0.5 million per year lower if the bill had applied to the Kalamazoo example.

In addition, assuming that increases in taxable value affect homestead and nonhomestead property equally and based on the share of nonhomestead property relative to total taxable value, local school operating taxes within the City of Kalamazoo would have increased $2.9 million while in other districts collections would have fallen by $1.4 million. These increases would have affected the amount of School Aid Fund expenditures needed in the respective districts in order to meet per-pupil funding guarantees, depending upon the specific characteristics of the per-pupil allowances in affected districts, but the net impact on School Aid Fund expenditures would have been either an increase or a decrease in total expenditures.

The 10 counties most below the required average income levels in the bill comprise 28.3% of the State's taxable value, although it is unclear whether those counties would create zones and most other counties meeting the income requirements have smaller total taxable values. Local school districts that were a part of or surrounded promise zones would be affected by this legislation. To the extent that pupils left the school districts surrounding promise zones and enrolled in school districts within promise zones, the former districts would lose per-pupil funding, and the enrolling districts would gain per-pupil funding.

The impact on expenditures from the School Aid Fund is unknown and would depend upon the relative split of changes in taxable value between homestead and nonhomestead property, the existence of hold-harmless mills on homestead property, and the relative foundation allowances in schools facing changes in enrollment as a result of the bill.

It is unknown whether the establishment of a promise zone would entice children not currently enrolled in the public school system to enter a public school district within a promise zone. If this were to occur, then State costs would increase commensurate with the number of additional enrolled pupils originating from outside the public school system.

The impact of the bill on local property tax revenue to individual local units could be significant. Between 2001 and 2005, taxable values in Kalamazoo County increased at an average rate of 5.7% per year, and rose at a 5.3% rate after Kalamazoo adopted its program. In the Kalamazoo School District, before the program, taxable values increased an average of 4.7% per year, compared with 5.1% after the program was adopted. However, in Galesburg Augusta Community Schools, the annual increase in taxable value fell from 9.9% before the change to 4.1%, and in the Parchment School District taxable values went from an average increase of 5.6% per year to 3.8%. These changes corresponded to enrollment changes in the districts, while enrollment in the Kalamazoo District went from a decline of 2.1% per year to an average annual increase of 5.6%. In contrast, enrollment in the Galesburg Augusta Community Schools went from an increase of 1.0% per year to an average annual decline of 1.8%, and enrollment in the Parchment School District went from an average annual increase of 0.6% to an average annual decline of 5.1%. As a result, property tax revenue to the City of Kalamazoo increased, while it fell for local units contained within the Parchment School District and the Galesburg Augusta Community School District. Data are not available at this time to extrapolate these changes to a statewide program as proposed by the bill; however, the Kalamazoo example suggests that lower-income local units would receive more property tax revenue as a result of the bill while all other units would receive less. The net impact of these changes is unknown at this time and, as indicated earlier, the more modest provisions in the bill suggest that the effects would not be as significant as in the Kalamazoo example.

The Department of Treasury would incur minimal administrative costs as a result of the bill.

There is no fiscal impact associated with the repeal of the repealer in Public Act 1 of 2008.

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