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House Bill 5375 (Substitute H-3 as discharged)
Sponsor: Representative Tim Melton
House Committee: Education
Senate Committee: Education

CONTENT

The bill would create the "Michigan Promise Zone Act" to permit the governing body of an eligible entity (a city, township, county, school district, or intermediate school district in an area where the percentage of families with children living at or below the Federal poverty rate is higher than the State average), after a public hearing, 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. The bill also would do the following:

- Require the governing body to apply to Department of Treasury for approval to establish a promise zone.
- Require the governing body to develop a promise zone development plan that included a description of the proposed promise of financial assistance, any eligibility restrictions, an actuarial model of the cost of the plan, and how the necessary funds would be raised.
- Require the proposed promise to provide, at a minimum, funding sufficient to provide an eligible student with tuition necessary to obtain a bachelor's degree or its equivalent at an in-State postsecondary institution, subject to limitations authorized by the bill.
- Require the Department to review the promise zone development plan and certify that it met the bill's requirements and was sustainable.
- Provide that the promise of financial assistance could not include funding for attendance at a postsecondary institution located outside the State.
- Require the governing body to create a promise zone authority, under the supervision and control of an 11-member board.
- Require the State to capture half of any increase in the State education tax (SET) collected in the promise zone above a certain initial amount, and pay the captured tax to the promise zone authority.
- Permit a local government, school district, or intermediate school district that was not an eligible entity to establish a promise zone, but prohibit such an entity from capturing SET revenue.
- Prohibit an authority board from spending more than 5% of the money it received for administrative costs.
- Require the Department to oversee the operations of a promise zone authority or board.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would reduce State education tax revenue to the School Aid Fund by an estimated \$46.2 million, 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 effect 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 the number of local units that would create 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".

While the number of eligible local units that could create a zone and an authority is unknown, the more zones that were created would be likely to reduce the effect of each zone. Furthermore, even with a small number of zones, the effect upon residency decisions of individuals could be minimal. 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. As a result, 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 between a 0.5% and 1.0% change in the taxable value within the district.

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, to be distributed 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 as a result of the bill's application to the Kalamazoo example.

Furthermore, 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 affect 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 effect on School Aid Fund expenditures would have been either an increase or a decrease in total expenditures.

School districts that would meet the income requirements in the bill comprise 26.5% of the State's taxable value. As a result, the taxable value percentage increase in districts adopting the zones would need to rise by more than 5.6 times the percentage decline in districts without zones in order for the School Aid Fund not to experience a revenue decline. Based on the ratios from the City of Kalamazoo, if applied statewide the revenue loss to the School Aid Fund could total \$46.2 million per year.

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.

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.

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 phenomenon 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 increase in taxable value fell from 9.9% per year before the change to 4.1% per year, 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% per year, 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 effect of these changes is unknown at this time.

The degree to which the bill's inclusion of graduates of nonpublic schools within zones would alter the estimated impact on affected local units, School Aid Fund revenue, and School Aid Fund expenditures needed to maintain per-pupil funding guarantees is unknown.

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

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