

Legislative Analysis



REVISE MICHIGAN PROMISE ZONES

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House Bill 6283 as introduced
Sponsor: Rep. Tim Melton
Committee: Education

First Analysis (6-29-10)

BRIEF SUMMARY: The bill would amend the Michigan Promise Zone Authority Act to revise the board composition, student eligibility, annual budget, and state education tax capture requirements.

FISCAL IMPACT: The bill would potentially accelerate the loss of state education tax revenue received by the State School Aid Fund by eliminating the requirement of two years of payment prior to SET capture. The amount of accelerated revenue loss is currently indeterminate.

THE APPARENT PROBLEM:

The Promise Zone post-secondary education program, created by Public 549 of 2008, allows communities where the number of poor children (those living at or below the federal poverty level) equals or exceeds the state average to create special authorities whose purpose is to raise funds to provide tuition for postsecondary education. The funds are designated as college or university scholarships for the high school graduates who both live and attended school within the zone's boundaries. See **Background Information**.

The Promise Zone program is modeled after the Kalamazoo Promise, a privately funded post-secondary scholarship program available to every public school student who goes to school in the City of Kalamazoo. See <http://www.kalamazoopromise.com>

Under the state law, Promise Zone Authorities that can successfully raise money privately to fund tuition assistance are eligible to capture a portion of the incremental growth in revenue within the zone from the State Education Tax (SET). The SET is a six-mill property tax on residential and commercial property.

The law caps the number of Promise Zone programs at 10, statewide. Following a first-come, first-served application process that began in January 2009, ten zones have been certified by the Michigan Department of Treasury where the program is administered.

To date Promise Zones designations have been awarded to (1) Baldwin Community Schools, (2) Battle Creek Public Schools, (3) Benton Harbor Area Schools, (4) the City of Detroit, (5) the School District of the City of Hazel Park, (6) Jackson Public Schools, (7) the Lansing School District, (8) the Muskegon Area Intermediate School District, (9) the School District of the City of Pontiac, and (10) the Saginaw School District.

The Baldwin Community Promise Zone Authority, located in Lake County, has led the way in creating the state's first Promise Program under the statute. The community raised \$100,000 privately in its first year, and offered 19 high school graduates--more than half of Baldwin High School's graduating class--a college scholarship of up to \$5,000 at their graduation in June 2010. According to committee testimony, Promise Zone programs are ready to launch in Pontiac and Saginaw very soon.

As the Department of Treasury and local communities have implemented the two-year old Promise Zone Act, some revisions to the statute have been recommended. To that end, legislation has been introduced.

THE CONTENT OF THE BILL:

House Bill 6283 would amend five sections of the Michigan Promise Zone Authority Act to revise the board composition, student eligibility, annual budget, and state education tax capture requirements. A more detailed description of the House Bill 6283 follows.

Board Composition. Now under the law, a Promise Zone Authority is created by a governing body certified by the Department of Treasury and consisting of 11 people. Nine of the members are appointed by the chief executive officer of the "eligible entity." Further, the Senate Majority Leader and the Speaker of the House of Representatives each appoint a member. ("Eligible entity" is defined to mean a city, township, county, local school district, or intermediate school district, in which the percentage of families with children under age 18 that are living at or below the federal poverty level is greater than or equal to the state average of families with children under age 18 living at or below the federal poverty level, as determined by the Department of Treasury).

Currently the act specifies that not more than three members of a Promise Zone Authority can be government officials. House Bill 6283 would modify this provision to require instead that "not more than three members shall be elected officials or employees of the government body." The bill then specifies that an "elected official" means an individual who holds an elective federal office or an elective office in any state or local government.

Now the act makes the proceedings and rules of the board subject to the Open Meetings Act, and specifies that the board must adopt rules governing its procedure and the holding of regular meetings, *subject to the approval of the governing body.* House Bill 6283 would retain the provision, but eliminate the phrase "subject to the approval of the governing body."

Now under the act, a member of the board may be removed for cause by the governing body, after having been given notice and an opportunity to be heard. House Bill 6283 would retain this provision, but modify it to say: a "board *by a majority vote of its members then in office,* may remove a member of the board for cause."

Promise Zone Development Plan. All Promise Zone Authorities must create Promise Zone Development Plans, and submit them to the Department of Treasury for review and

possible revision. The Plans must describe the promise of financial assistance that will be given to students, and the law describes in detail the required components of a plan. Among the components is one that requires "a complete description of any limitations on the promise of financial assistance; if the promise of financial assistance will be pro-rated based on the number of years the student has resided within the promise zone; if the promise of financial assistance will be restricted to students who have resided within or attended a public high school or non-public high school within the promise zone for a minimum number of years; if the promise of financial assistance is predicated on the student maintaining a minimum college grade point average and carrying a minimum college credit hour class-load; or if the promise of financial assistance is restricted to attendance at one or more public or private post-secondary institutions in Michigan.

House Bill 6283 would retain the need for a complete description, in the plan, of the limitations noted above, and also require a complete description "if the promise of financial assistance is limited to students whose cumulative high school grade point average exceeded a certain minimum." The bill continues: "However, a limitation described in this subparagraph may not include a minimum cumulative high school grade point average of more than 2.5."

Further, the bill specifies that the approval of the Department of Treasury would be required if an authority included in its Development Plan any limitations on the promise of financial assistance that is not described above.

Funding. Now the law requires that a Promise Zone Development Plan be financed by (1) donations; (2) revenues; and (3) money obtained from other sources approved by the governing body or otherwise authorized by law. House Bill 6283 would remove the phrase in (3): "approved by the governing body."

Annual Authority Budget. Currently the law requires that the director of an authority submit a budget to the board at the beginning of each fiscal year, and that that budget contain the information customarily required of municipal departments. House Bill 6283 would retain this provision, but remove the requirement that the governing body (defined as the elected body of an eligible entity having legislative powers) approve the budget before the board adopted it. Specifically, the bill would eliminate the provision that follows: *After review by the board, the budget shall be submitted to the governing body. The governing body must approve the budget before the board may adopt the budget. Unless authorized by the governing body, funds of the eligible entity shall not be included in the budget of the authority.*

Incremental Tax Growth. House Bill 6283 would rewrite the provision that describes how a Promise Zone Authority calculates the amount of incremental growth for the capture of the state education tax. The bill specifies that the initial base year would be the calendar year immediately preceeding the year in which an authority made its initial tuition payment under the Promise Zone Development Plan. The bill further specifies that the Authority could only change the base year to one of the three immediately succeeding calendar years.

In addition, House Bill 6283 specifies that if an authority continued to make annual payments under the Promise Zone Development Plan, then each year the Department of Treasury would be required to determine the amount by which the state education tax revenue from the Promise Zone exceeded the revenue in the base year, for each tax collecting unit that collected state education tax in the zone, and then authorize the authority to capture one-half of that amount from the proceeds of the state education tax in each of those tax collecting units.

Currently the law requires that proceeds from the capture of the state education tax under this section be deposited in the state treasury and credited to a restricted fund to be used solely for the purposes of this act. House Bill 6283 would eliminate this provision.

House Bill 6283 would also eliminate the provision that specifies "if the authority continues to make annual tuition payments in accordance with the promise of financial assistance, *two years after* the authority's initial payment of financial assistance and each year thereafter, this state shall pay to the authority the state education tax captured under subsection (2)."

In addition, House Bill 6283 would eliminate the provision that specifies that "if at any time an authority does not make annual tuition payments in accordance with the promise for financial assistance, any amount captured from that promise zone in the restricted fund created under subsection (2) shall be paid into the School Aid Fund established in Section 11 of Article IX of the State Constitution of 1963." Instead, the bill specifies that if an authority did not make annual tuition payments under the Promise Zone Development Plan, then the Department of Treasury would discontinue authorizing the capture of state education tax revenue.

Definitions. Currently the act defines "nonpublic high school" to mean a high school operated by a nonpublic school that includes grades 9 to 12 or 10 to 12 and that awards a high school diploma. Nonpublic high school also includes a general education development (GED) test. House Bill 6283 would revise the definition to remove the second sentence; the bill would eliminate: "nonpublic high school also includes a general education development test."

MCL 390.1663 et al

BACKGROUND INFORMATION:

For more information about the statute that creates the Michigan Promise Program, see the House Fiscal Agency-Legislative Analysis Section analysis of House Bill 5375 and Senate Bill 861--now Public Acts 549 and 550 of 2008--at <http://www.legislature.mi.gov/documents/2007-2008/billanalysis/House/pdf/2007-HLA-5375-6.pdf>

ARGUMENTS:

For:

Those who encourage community leaders to create College Promise programs say they can create the spark that can light a candle of hope in the hearts of able yet financially strapped students throughout Michigan. They point to the early effects of the Kalamazoo Promise as evidence of their claim.

Since the Promise Zone Authority Act was created by Public Acts 549 and 550 of 2008, ten Michigan communities have created College Promise programs: Baldwin, Battle Creek, Benton Harbor, Detroit, Hazel Park, Jackson, Lansing, Muskegon Area, Pontiac, and Saginaw. The first community to offer a college scholarship--\$5,000 to 19 students--was Baldwin, in June 2010. There, aggressive fundraising during 2009-2010 raised \$100,000. However, each community's Promise Program differs, as members of the local authorities craft College Promise programs that meet both student need and the level of financial resources at hand.

Proponents of the program, lead by the program coordinator in the Michigan Department of Treasury, note that implementation of the College Promise program has revealed the need to change the statute in three ways: to clarify the responsibilities of the Authorities (and better distinguish them from the local school districts that have created them); to give local Authorities greater flexibility when determining those high school graduates who are eligible for scholarships (making voluntary rather than mandatory the GED option, and allowing programs to set GPA requirements); and to revise the state education tax capture requirements (taking into account the lack of property tax growth during the economic downturn). To that end, the bill would require that a community undertake at least a year of successful fundraising (rather than the two years now stipulated) to establish a program, and then use that money to pay scholarships to eligible high school graduates. The first scholarship awards would then establish a base year (which could be reset in any of the three following years), and trigger the state education tax capture of one-half of the annual growth in the State Education Tax that is collected within the promise zone the following year.

Proponents argue that these changes will better ensure the success of the local College Promise programs now getting underway throughout Michigan.

Against:

Opponents of the College Promise program worry that the high level of community fundraising necessary to sustain a program indefinitely—millions of dollars each year in large cities—is unrealistic. Consequently, a program could create false hope, and devastate the dreams of students. Others note that the real social problem that this program does not address is the extraordinarily high cost of a college education. Others oppose this legislation because it places a burden on the School Aid Fund, since half of the annual growth in the State Education Tax within the College Promise Zone would be earmarked for post-secondary education, rather than K-12 education.

POSITIONS:

The Michigan Department of Treasury supports the bill. (6-24-10)

The Macomb Intermediate School District supports the bill. (6-24-10)

The Michigan Education Association opposes the bill. (6-24-10)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.