Legislative Analysis

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REVISE MICHIGAN PROMISE ZONES

Senate Bill 312 (Substitute S-3)
Sponsor: Sen. Goeff Hansen
House Committee: Education
Senate Committee: Economic Development

(Enacted as Public Act 210 of 2013)

Complete to 12-10-13

A SUMMARY OF SENATE BILL 312 (S-3) AS PASSED BY THE SENATE 10-17-13

The bill would amend the Michigan Promise Zone Authority Act (MCL 390.1663 et al.) to:

- Include assistance for vocational education or training in a promise of financial assistance for postsecondary education.
- Require the amount of an authority's proposed promise of financial assistance to include an amount sufficient to pay for an eligible student's "qualified educational expenses."
- Identify additional limitations that could be placed on an authority's promise of financial assistance.
- Revise the procedure for determining an authority's capture of State Education Tax revenue.

The bill also would do the following:

- Require the amount of financial assistance identified in a promise zone development plan to reflect the amount available for disbursement included in the authority's annual budget.
- Revise a limitation on an authority board's administrative expenses.
- Revise the process for setting an authority's annual budget, and require the budget to include the amount the authority intended to disburse to each eligible student in the fiscal year.
- Require that within 120 days after the end of each fiscal year, a promise zone authority board submit audited financial statements to the Michigan Department of Education.

Now under the act, the governing body of an "eligible entity" may establish a promise zone to ensure *financial assistance for postsecondary education* to high school graduates who both live and go to school within the zone's boundaries. The statute defines "eligible entity" to mean a city, township, county, local school district, or intermediate school district in which the percentage of families with minor children who are living at or below the federal poverty level is at least equal to the state average.

Under Senate Bill 312 (S-3), the term "postsecondary education" would include a vocational program. Under the bill, "vocational program" is defined to mean an education or training program intended to teach a trade, occupation, or vocation, and offered by a public or private postsecondary institution in this state.

The act requires a promise zone authority to prepare a promise zone development plan, which must contain a complete description of the proposed promise of financial assistance. That promise must include, at a minimum, funding sufficient to provide an eligible student with the tuition necessary to obtain an associate degree or its equivalent at a Michigan community or junior college and, at most, funding sufficient to provide an eligible student with the tuition necessary to obtain a bachelor's degree or its equivalent at a public postsecondary institution in Michigan.

Under Senate Bill 312 (S-3), the minimum and maximum amounts would be revised, so as to include funding sufficient to pay the "qualified educational expenses" of an eligible student to obtain an associate or bachelor's degree, as applicable, or its equivalent, as determined by the board. "Qualified educational expenses" would include tuition and fees as well as expenses for books, supplies, and equipment.

Currently the act requires a promise zone development plan to describe any limitation on the promise of financial assistance.

Under Senate Bill 312 (S-3), in addition to current limitations, a plan could limit the promise of financial assistance (1) to students whose cumulative high school grade point average exceeded a specified minimum; (2) to students who complied with requirements established by the board in order to improve student progress toward degree completion; or (3) in a promise zone that encompassed more than two districts, to students who lived in and graduated from high schools located within the boundaries of fewer than all of the constituent school districts.

Currently the act provides for the state to "capture" half of the incremental growth in State Education Tax (SET) revenue following a base year, and pay that revenue to a promise zone authority that makes payments according to its promise of financial assistance. The base year is the amount of revenue received from the collection of the SET in the promise zone in the year before the year in which an authority makes its initial tuition payment, or the amount of SET revenue received in the promise zone *in any one of the three immediately succeeding years*, whichever is less.

Senate Bill 312 (S-3) would refer, instead, to the initial payment of qualified educational expenses, or the amount SET received in the promise zone *in any one of the five immediately succeeding years, whichever was less.*

FISCAL IMPACT:

The fiscal impact is indeterminate with a possible minimal impact on Promise Zone Authority expenses due to a potential increase in the use of the Promise Zone scholarships. There could be an increase in students using the scholarship due to the inclusion of vocational programs. This could reduce the amount available per scholarship or reduce the length of fund availability.

There also may be a minimal revenue impact for both the State and Promise Zone Authorities due to changes in the base year calculation. For each year that the Authority makes the required financial assistance payments, the State captures as revenue for the Promise Zone half of the growth in the SET in that Promise Zone since the base year. Currently, the base year is the amount of revenue collected from the SET in the Promise Zone in the year immediately preceding the first year of Promise Zone payments for educational expenses, or in the succeeding 3 years, whichever is less.

The bill would expand the potential base year range from the lowest of the succeeding 3 years to the lowest of the succeeding 5 years, and therefore would broaden the possibilities for revenue capture from the SET for Promise Zones that experience property value decline after the first year of making financial assistance payments.

Additionally, an Authority currently cannot spend more than 15% of the proposed annual budget for administrative costs. This bill proposes that an Authority may not use more than 15% of its SET revenue capture for administrative costs. Therefore any change in SET revenue received would change the amount available for administrative expenses.

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