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BILL ANALYSIS

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Senate Bill 312 (Substitute S-3 as reported)
Sponsor: Senator Goeff Hansen
Committee: Economic Development

CONTENT

The bill would amend the Michigan Promise Zone Authority Act 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; and 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.

The Act allows the governing body of an eligible entity to 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. "Eligible entity" means 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 the bill, postsecondary education would include a vocational program.

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. The 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 the bill, the minimum and maximum amounts would have 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.

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

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. The bill would refer 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.

MCL 390.1663 et al. Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would have an indeterminate effect on the expenses of promise zone authorities and an unknown impact on revenue received by authorities. With the inclusion of vocational education programs, the costs of providing promise zone grants could increase to the extent of any reimbursement for the new programs.

Generally, the bill would not alter the revenue an authority may capture from the State Education Tax. However, by altering the definition of base year revenue, the bill would create a larger set of circumstances under which an authority can capture revenue or increase the amount of the capture. An authority can capture revenue only if the State Education Tax revenue collected in the zone exceeds collections in the base year. If SET revenue in the zone declines in any of the three years after the zone begins making disbursements, the base year is redefined from the year before the disbursement began to the year with the lowest amount of SET revenue collections. (Because the authority can capture increases in revenue only relative to the base year, there would have been no capture in those years. However, the capture would be larger once revenue growth did occur because of the lower, redefined base year.) The bill would extend that time horizon for redefining the base year to five years. As a result, once property taxes had grown sufficiently to allow an authority to capture revenue, the bill would increase the amount of the capture. The changes would have no effect on an authority where SET revenue did not decline after disbursements began.

In addition, a local promise zone authority could see a change in spending on administrative costs under the bill, which would change the cap on spending for administrative costs from 15% of the total proposed annual budget to 15% of the SET revenue captured. Since the SET is a component or subset of the total proposed annual budget, the change in the cap likely would mean less revenue available for spending on administrative costs. Although the bill would reduce the allowable spending on administrative costs while the authority was receiving SET revenue, the bill also would remove the cap on administrative costs in years in which the authority did not receive captured SET revenue.

Date Completed: 10-8-13 Fiscal Analyst: Kathryn Summers
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