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BILL ANALYSIS

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Senate Bill 312 (as introduced 4-11-13)
Sponsor: Senator Goeff Hansen
Committee: Economic Development

Date Completed: 9-4-13

CONTENT

The bill would amend the Michigan Promise Zone Authority Act to do the following:

- **Include assistance for vocational education or training in a promise of financial assistance for postsecondary education.**
- **Revise the process for filling vacancies on the board of a promise zone authority.**
- **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.**
- **Require the amount of an authority's proposed promise of financial assistance to include an amount sufficient to pay for an eligible student's mandatory fees and other necessary expenses, in addition to tuition.**
- **Identify additional limitations that may be placed on an authority's promise of financial assistance.**
- **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.**
- **Revise the procedure for determining an authority's capture of State Education Tax revenue.**

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 that are living at or below the Federal poverty level is greater than or equal to the State average, as determined by the Department of Treasury.

Vocational Program

The Act defines "promise of financial assistance" as a commitment by an eligible entity to provide financial resources for public or private postsecondary education to eligible students living in a promise zone who have graduated from a public or nonpublic high school located within the promise zone. Under the bill, postsecondary education would include a vocational program.

The bill would define "vocational program" as an education or training program intended to teach a trade, occupation, or vocation and offered by a public or private postsecondary institution in Michigan.

Promise Zone Authorities

The Act requires the governing body of an eligible entity to create a promise zone authority if the Department of Treasury certifies the eligibility of the governing body to establish a promise zone and the governing body establishes a zone.

An authority must be under the supervision and control of a board consisting of 11 members, nine of whom must by appointed by the eligible entity's chief executive officer with the advice and consent of the governing body. One member must be appointed by the Senate Majority Leader and one by the Speaker of the House.

The bill would refer to nine "locally appointed members", and would require the eligible entity's chief executive officer, with the advice and consent of the governing body, to appoint the nine *initial* locally appointed members. If a vacancy occurred in an office of a locally appointed member, the board would have to appoint a new member to fill that vacancy.

Currently, an appointment to fill a vacancy must be made by the chief executive officer of the eligible entity for the unexpired term. The bill would delete that provision.

Promise of Financial Assistance

The Act requires a promise zone authority to prepare a promise zone development plan. The plan must contain a complete description of the proposed promise of financial assistance, which must include a promise of financial assistance to all students residing within the promise zone who graduate from a public high school or nonpublic high school located with the promise zone. The bill specifies that the financial assistance would have to be in an amount established by the board (the authority's governing body) to reflect the amount available for disbursement to eligible students and included in the authority's annual budget. The bill also would refer to "eligible students" in this provision.

Currently, the proposed promise of financial assistance 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 or a combination of community or junior colleges 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 or a combination of public postsecondary institutions in Michigan, subject to any authorized limitations.

Under the bill, in addition to tuition, the minimum and maximum amounts of a proposed promise of financial assistance would have to include funding sufficient to pay the mandatory fees and necessary expenses of an eligible student to obtain an associate or bachelor's degree, as applicable, or its equivalent, as determined by the board.

Under the Act, the proposed promise of financial assistance also may provide funding for an eligible student to attend a private college in Michigan in an amount not to exceed the average tuition to obtain a bachelor's degree at all public universities in Michigan. The bill would refer to an amount that did not exceed the average tuition, mandatory fees, and other necessary expenses to obtain a bachelor's degree at all Michigan public universities.

Currently, a promise zone development plan must include a requirement that graduates of a public high school or nonpublic high school exhaust all other known and available restricted grants for tuition and fees for postsecondary education provided by a Federal, State, or local governmental entity, as determined by the board. The bill would refer to all other known and available restricted grants for tuition, mandatory fees, and other necessary expenses.

Limitations on Assistance

The Act requires a promise zone development plan to include a complete description of any limitation on the promise of financial assistance as allowed in the Act. Under the bill, those limitations could include if the promise of financial assistance would be limited to students whose cumulative high school grade point average exceeded a specified minimum. A board could revise, establish, or eliminate a high school grade point average requirement for students after it submitted a promise zone development plan to the Department of Treasury, and would not be required to amend the plan or obtain approval from the Department for that change.

The limitations also could include the following:

-- If the promise of financial assistance would be limited to students who complied with reasonable requirements established by the board in order to improve student progress toward degree completion.
-- If the promise of financial assistance in a promise zone that encompassed more than two school districts would be limited to students who lived in and graduated from high schools located within the boundaries of fewer than all of its constituent school districts.

Administrative Costs

The Act authorizes a promise zone authority board to employ and establish the compensation of a director, treasurer, secretary, and other personnel the board considers necessary. The board also may retain legal counsel to advise the board in the proper performance of its duties.

The authority may not spend more than 15% of its proposed annual budget for administrative costs. Under the bill, instead, beginning in the first fiscal year in which it received revenue from the State from the capture of State Education Tax revenue, the authority could use not more than 15% of the amount of that revenue to pay for administrative costs.

Board Budget

The Act requires the director of a promise zone authority to submit a budget to the board for the operation of the authority for each fiscal year. The bill instead would require the board to adopt a budget for the operation of the authority for each fiscal year, based on a budget submitted to it by the director.

Under the Act, after the board's review, the budget must be submitted to the governing body of the eligible entity. The governing body must approve the budget before the board may adopt it. The bill would delete those requirements.

The bill would require the budget to include the amount the authority intended to disburse to each eligible student in the fiscal year. Subject to the maximum assistance amounts described in the Act, the board would have to establish the amount of the annual payment to eligible students and, in making that determination, consider the financial resources available to the authority for disbursement to those students.

SET Capture

As described below, 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 authority must determine the base year for calculating the amount of incremental growth for the capture of the SET. The base year is the amount of revenue received from the collection of the SET in the promise zone in the year immediately preceding the year in which an authority makes its initial tuition payment in accordance with the promise of financial assistance or the amount of revenue received from the collection of the SET 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 tuition, mandatory fees, and other necessary expenses, or the amount received from the collection of the SET in the promise zone in a succeeding year, whichever was less.

If the authority continues to make annual payments in accordance with the promise of financial assistance, in the year following the base year and in each subsequent year, the State must capture half of the increase in revenue, if any, from the collection of the SET. 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 that assistance and each year after that, the State must pay to the authority the captured SET revenue. If at any time the authority does not make annual tuition payments in accordance with the promise for financial assistance, any amount captured from that promise zone must be paid into the School Aid Fund.

Under the bill, these provisions would apply if the authority continued to make, or did not make, annual payments of mandatory fees and other necessary expenses, in addition to tuition.

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. Under current law, 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 whatever year, after disbursement began, that exhibited the lowest SET revenue collections. 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 this bill. The bill 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 than under current law. 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.

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