

Legislative Analysis



PROMISE ZONE AMENDMENTS

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Senate Bill 539 (proposed substitute H-1)

Sponsor: Sen. Goeff Hansen

Analysis available at

<http://www.legislature.mi.gov>

Senate Bill 540 (as passed by Senate w/o amendment)

Sponsor: Sen. Jim Ananich

(Enacted as Public Acts 9 and 10 of 2016)

House Committee: Workforce and Talent Development

Senate Committee: Economic Development and International Investment

Complete to 1-12-16

SUMMARY:

Senate Bill 539 would amend the Michigan Promise Zone Authority Act to provide additional reporting requirements as part of a promise zone plan and to provide ways for a promise zone to be dissolved. Senate Bill 540 would make a complementary amendment to the State Education Tax (SET) Act.

Under the promise zone program, the governing body of an "eligible entity" may establish a promise zone, with the approval of the Department of Treasury, 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. No more than 10 promise zones can be certified by the Department of Treasury.

Authorities that successfully raise money privately to fund tuition assistance are then eligible to capture a portion of the incremental growth in revenue within the zone from the State Education Tax (SET).

Senate Bill 539

Specifically, SB 539 would repeal the Michigan Promise Zone Act (PA 550 of 2008) and add provisions currently contained within that act to the Promise Zone Authority Act, with the exception of Section 3 of the Promise Zone Act (MCL 390.1643), which contains definitions. That section would not be added to the Authority Act.

Presently, Section 5(4) of the Promise Zone Act (MCL 390.1645) states that not more than 10 zones can be authorized by the Department of Treasury. This limit would be retained and added to the Promise Zone Authority Act.

Dissolution

Additionally, the bill would provide for a way to dissolve a Promise Zone. Under the bill, if a governing body of an eligible entity dissolves a promise zone by resolution, the

Department of Treasury's certification authorizing that promise zone is terminated and would not count toward the limit of 10 certifications.

The bill also allows the Department of Treasury to dissolve a promise zone if the promise zone authority does not begin making annual payments of qualified educational expenses in accordance with the promise of financial assistance within two years of obtaining approval of its promise zone development plan. When a promise zone is dissolved, remaining assets, after satisfying any obligations, belong to the eligible entity and can be used solely for purposes of promoting access to postsecondary education pursuant to resolution of the governing body of the eligible entity.

Student Performance Report

SB 539 also would require that a promise zone development plan contain a complete description of the criteria and procedures by which the performance of students receiving financial assistance under the proposed plan will be assessed and reported. This assessment and reporting methodology would have to include, but not be limited to, a written report submitted no later than October 31 of each year to the department.

This annual report would be required to include the following information, which could be obtained, in whole or in part, from any reliable source that complies with applicable laws regarding student privacy:

- The number of students who received financial assistance under the promise zone development plan during the prior academic year.
- Of those students, the number who successfully completed either a certificate or associate program, completed a bachelor's program, and who withdrew from classes during the prior academic year.
- Of those students who initially reached successful completion of more than the equivalent of 23 semester credits during the prior academic year, the average time to successfully complete the equivalent of 24 semester credits.
- The six-year graduation rate for recipients of financial assistance under the promise zone development plan.

This plan would have to be submitted within five years after the eligibility to establish a promise zone was certified by the department. If the plan is not submitted within this time frame, the department could dissolve the promise zone.

A promise zone development plan approved under this act before the effective date of SB 539 would have to be amended as necessary to meet these assessment and reporting requirements. That amendment would have to include a first annual reporting deadline not later than October 31, 2017. That amendment must be submitted by the board to the Department of Treasury within 60 days after the bill's effective date.

Senate Bill 540

Under current law, the State Education Tax Act requires the state treasurer to deposit state education tax collections into the state treasury crediting the School Aid Fund (SAF). Under the bill, this requirement would apply "except as otherwise provided by law."

FISCAL IMPACT:

Senate Bill 539 (substitute H-1) would have no fiscal impact on the state. The bill could increase costs for local promise zone authorities by requiring that they provide an annual report including progress data for those students receiving tuition support.

Eight eligible entities have established promise zones and are eligible for reimbursement; most of the zones are still in their infancy, so the annual SET revenue loss is relatively small, but is expected to grow over time as the zones mature. The initial act authorizing promise zones became effective in 2009, and the first payments were made from the School Aid budget in FY 2011-12. Estimated state costs for FYs 2015-16 and 2016-17 total \$277,400 and \$1.0 million, respectively for the existing eight promise zones: Baldwin, Battle Creek, Benton Harbor, Hazel Park, Lansing, Muskegon ISD, Pontiac, and Saginaw. (Two other zones, in Detroit and Jackson, were among the original ten certified, but have not qualified for state funding. Jackson has taken steps to dissolve its promise zone.)

The reduction in state revenue is equal to one-half of the increase in revenue from the SET within the promise zone, compared to the year immediately preceding the first year that tuition payments are made from the zone; those revenues are shifted to the local promise zone authority through an appropriation to its school district or intermediate school district from Section 26c of the School Aid budget (MCL 388.1626c).

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