



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bills 539 and 540 (as enacted)
Sponsor: Senator Goeff Hansen (S.B. 539)
Senator Jim Ananich (S.B. 540)

PUBLIC ACTS 9 & 10 of 2016

Senate Committee: Economic Development and International Investment
House Committee: Workforce and Talent Development

Date Completed: 4-7-16

RATIONALE

Previously, both the Michigan Promise Zone Act and Michigan Promise Zone Authority Act provided for the establishment of "promise zones" in eligible communities. Promise zones are created to allow increased access to higher education by providing scholarships to students who graduate from high schools within the promise zones. Promise zones that are certified by the Department of Treasury may receive revenue from the State Education Tax, and the Department may not certify more than 10 promise zones at any one time.

Several issues were raised regarding the promise zone laws. When the Jackson Promise Zone was dissolved in 2015, there was concern that the dissolution language within the Acts was not clear or sufficient. Additionally, some expressed concern over the lack of clarity in other areas of the Acts, difficulty in gathering reporting data from the zones, and overall Department administration of the promise zones. To address these issues, it was suggested that the Acts be consolidated, with some revisions and additional requirements.

CONTENT

Senate Bill 539 repealed the Michigan Promise Zone Act and amended the Michigan Promise Zone Authority Act to do the following:

- Reenact provisions of the Michigan Promise Zone Act related to the establishment of a promise zone and the maximum allowed promise zones.
- Require a promise zone authority to submit a promise zone development plan within five years after the eligibility to establish the promise zone is certified by the Department; and allow the Department to dissolve the promise zone if a development plan is not submitted within five years.
- Require a promise zone development plan to include provisions regarding the assessment and reporting of students' performance.
- Require promise zone development plans approved under the Act before the bill's effective date to be amended as necessary to meet the assessment and reporting requirements.
- Allow the Department to adjust the calculation of captured State Education Tax revenue if the boundaries of a promise zone are changed by a merger or other circumstance.
- Allow the Department 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 development plan.
- Require the property and assets of a dissolved promise zone authority to be used solely for the purposes of promoting access to postsecondary education.

Senate Bill 540 amended the State Education Tax Act to make an exception to the requirement that State Education Tax revenue be deposited in the State School Aid Fund.

The bills took effect on February 16, 2016.

The Michigan Promise Zone Authority Act permits the governing body of an eligible entity to establish a promise zone and provide a promise of financial assistance for postsecondary education to students who graduate from a public or nonpublic high school within the zone. The Act defines "eligible entity" as 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 greater than or equal to the State average, as determined by the Department of Treasury. Previously, the Michigan Promise Zone Act also contained these provisions.

Senate Bill 539

Proposal to Establish Promise Zone

Under the bill, if the governing body of an eligible entity determines that it is necessary for the best interest of the public to promote access to postsecondary education, the governing body, by resolution, may declare its intention to establish a promise zone.

The governing body must set a date for a public hearing on the adoption of a proposed resolution establishing a promise zone, and publish notice of the public hearing as required. The notice must describe the proposed promise zone, the details of the promise of financial assistance, and the criteria for eligibility to receive that financial assistance.

Previously, these provisions were in the Michigan Promise Zone Act.

Application Submission & Deadline

The bill requires the governing body of an eligible entity to submit an application to the Department of Treasury 30 days after the public hearing, if the governing body intends to proceed with the establishment of a promise zone.

The Department must review the application and determine if the governing body is eligible to establish a promise zone. If so, the Department must certify the eligibility of that governing body to establish a promise zone. If the Department certifies the governing body's eligibility, the governing body, by resolution, must establish a promise zone.

Previously, the Michigan Promise Zone Act contained these requirements.

Option to Create a Separate Promise Zone

Under the bill, within 90 days after the governing body of an eligible entity approves a resolution to establish a promise zone, a local school district may elect by resolution not to participate in the establishment of the promise zone. The resolution must provide that the local school district will establish a separate promise zone. If the local school district does not establish a promise zone within a reasonable period of time, the Department of Treasury may include that local school district in the promise zone established by the eligible entity where the district is located.

The Michigan Promise Zone Act previously contained these provisions.

Maximum Allowed Promise Zones

The bill requires the Department to certify not more than 10 governing bodies of eligible entities as eligible to establish a promise zone. A local unit that is not an eligible entity still may create a promise zone, but may not receive captured revenue from the State Education Tax.

Previously, these provisions were in the Michigan Promise Zone Act.

Promise Zone Authority & Development Plans

The Michigan Promise Zone Authority 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.

A promise zone authority must be under the supervision and control of a board consisting of 11 members, nine of whom must be 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 promise zone authority is required to prepare a promise zone development plan and submit it to the Department of Treasury. The plan must contain the following:

- A complete description of the proposed promise of financial assistance, which must be extended to all eligible students within the promise zone and be in an amount established by the board to reflect the amount available for disbursement to eligible students and included in the annual budget.
- A complete description of any limitations on that assistance.
- A requirement that graduates of a public high school or nonpublic high school exhaust all other known and available restricted grants for qualified educational expenses for postsecondary education provided by a Federal, State, or local government entity, as determined by the promise zone authority board.
- How the funds necessary to accomplish the promise of financial assistance will be raised.
- An actuarial model of how much the proposed plan is estimated to cost, based on actuarial formulas developed by the Department of Treasury.

The bill requires the promise zone development plan to be submitted to the Department within five years after it certifies the eligibility to establish the promise zone. If a promise zone development plan is not submitted within this time frame, the Department may dissolve the promise zone.

The bill also requires a development plan to include a complete description of the criteria and procedures by which the performance of the students receiving financial assistance will be assessed and reported. The assessment and reporting methodology must include the submission of a written report by October 31 of each year to the Department. The report must include the number of students who received financial assistance from the promise zone plan in the last calendar year; of those who received assistance, the number who successfully completed a certificate or associate program, or a bachelor's program; the number of students receiving financial aid who withdrew from classes in the past calendar year; of the students who initially reached successful completion of more than the equivalent of 23 semester credits during the prior calendar year, the average time to successfully complete the equivalent of 24 semester credits; and the six-year graduation rate for recipients of financial assistance pursuant to the authority's approved promise zone development plan. The required information may be obtained, in whole or in part, from any reliable source that complies with applicable laws regarding student privacy.

The bill requires any promise zone development plan approved under the Act before the bill's effective date to be amended as necessary to meet the new assessment and reporting requirements. That amendment must include a first annual reporting deadline not later than October 31, 2017, and must be submitted by the board to the Department within 60 days after the bill's effective date. The amendment is subject to the process under the Act for the Department to review proposed amendments to a development plan.

SET Capture

The Act provides for the State to "capture" half of the incremental growth in the 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.

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 payments of qualified educational expenses 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 the boundaries of two or more promise zones created under the Act overlap, payments will be made only to the first authority eligible for payment under the Act. The bill allows the Department of Treasury to adjust the calculation of the tax revenue capture if the boundaries of a promise zone are changed by merger or otherwise.

Dissolution of Authority

A promise zone authority that has completed its purposes must be dissolved by resolution of the governing body. The property and assets of the authority remaining after the dissolution belong to the eligible entity. The bill requires that the remaining assets be used solely for the purposes of promoting access to postsecondary education pursuant to the resolution of the governing body of the eligible entity.

The bill also provides that if the governing body by resolution dissolves an established promise zone, the Department's certification of that zone is terminated and does not count toward the limit of 10 certifications by the Department of Treasury.

In addition, under the bill, if a 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, the Department may dissolve the promise zone.

No Cause of Action

The Act states that the establishment of a promise zone development plan does not create a cause of action in law or in equity against the State, an eligible entity, or a promise zone authority, if the proposed promise of financial assistance is not paid to an eligible student.

The bill also provides that the establishment of a promise zone does not create a cause of action in law or in equity against the State, an eligible entity, or a promise zone authority.

Senate Bill 540

The State Education Tax Act requires the State Treasurer to deposit collections from the tax into the State Treasury to the credit of the State School Aid Fund. Under the bill, this requirement applies except as otherwise provided by law.

MCL 390.1665 et al. (S.B. 539)
211.905 (S.B. 540)

BACKGROUND

In November 2005, anonymous private donors in Kalamazoo, Michigan, announced tuition scholarships to any State university or community college in Michigan for all graduates of Kalamazoo Public Schools who have been enrolled in and resided within the district for at least four years. The scholarship program became known as the "Kalamazoo Promise". It covers 100%

of tuition for students who have been enrolled and resided in the district for their entire K-12 education and 65% for those who have been in the district since the 9th grade; a sliding scale based on length of enrollment applies to other students. The Promise was declared to continue in perpetuity using private dollars from donors, with the first scholarship granted in 2006.

A research report on the Kalamazoo Promise was finalized by the W.E. Upjohn Institute for Employment Research in 2010.¹ The Institute's findings displayed a reversal of long-term enrollment decline in Kalamazoo Public Schools, with a 17% enrollment growth since 2005 (due to increased entry rates and decreased exit rates). The report also stated that resources for school districts increased, and there was a positive impact on school culture. Specifically, the report found a renewed emphasis on college readiness (K-12), increased Advanced Placement enrollment, three years of rising test scores, and overall improvement in community perceptions of schooling. In the first four years of the program, 1,516 students received scholarships (81% of those eligible) and \$17.0 million was spent on scholarships by spring 2010. Approximately 80% to 90% of the district's graduates were considered eligible between 2006 and 2009, a number that ranged between 400 and 500 students each year. The report noted further effects on social capital and the city itself.

The W.E. Upjohn Institute also reports, as of 2015, that more than 30 different communities across the country have instituted Kalamazoo Promise-style programs since 2005.²

At the State level, Public Acts 549 and 550 of 2008 created the Michigan Promise Zone Authority Act and the Michigan Promise Zone Act. By April 2009, promise zones had been established in 10 different school districts. The promise zones were established by a "first come, first served" process and were required to fulfill State qualifications before being authorized. The 10 districts that were designated promise zones were Baldwin School District, Battle Creek School District, Benton Harbor School District, the City of Detroit, Hazel Park School District, Jackson School District, Lansing School District, Muskegon Intermediate Schools, Pontiac School District, and Saginaw School District.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The price of tuition and the potential for high student loan debt deter many students from applying for college. The average in-State cost for an individual to attend a public university for the 2015 fall semester was \$11,866. The State average for attending a community college during the 2015 fall semester was \$3,690.

Promise zones assist students and alleviate the financial burden and long-term financial ramifications of attending a postsecondary institution. For example, during committee testimony statistics describing the postsecondary attendance rate of high school graduates from the Baldwin School District were provided. Reportedly, a decade ago only 37% of those who graduated from high school enrolled in a higher education program. Now, the attendance of postsecondary education programs is nearly universal in the district.

By consolidating the promise zone statutes and addressing concerns that had been raised, the legislation strengthens the law and will help ensure that students continue to have access to higher education.

Opposing Argument

Michigan promise zones may receive SET dollars, which takes money away from K-12 and gives it to higher education. Once promise zones start receiving SET dollars, there could be a large effect

¹ Miller-Adams, Michelle, "The Kalamazoo Promise: Building Assets for Community Change", W.E. Upjohn Institute (2010).

² Additional information and reports are available on the W.E. Upjohn Institute for Employment Research website.

on the K-12 budget. Therefore, there should be some concern over the potential outcome of continuing to spend State dollars on promise zones. Although Baldwin and Benton Harbor so far are the only promise zones to receive captured SET dollars, there is potential for other promise zones to receive this revenue as SET collections are captured.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills will have no fiscal impact on the School Aid Fund. The bills will have no impact on administration or local units of government. The changes in Senate Bill 539 recodify statutory provisions or make preemptive changes for situations where promise zone boundaries are revised due to school district boundary changes, such as with the dissolution of Buena Vista. Any changes to operations and procedures will be minimal and within current appropriations.

Fiscal Analyst: Cory Savino

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.