Legislative Analysis

PROMISE ZONE EXPANSION

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Senate Bill 539 (substitute S-2 as passed by Senate)
Sponsor: Sen. Goeff Hansen

Senate Bill 540 (as introduced, passed by Senate)
Sponsor: Sen. Jim Ananich

House Committee: Workforce and Talent Development
Senate Committee: Economic Development and International Investment
Complete to 12-3-15

SUMMARY:

Senate Bills 539 and 540 would make amendments to the Michigan Promise Zone Authority Act and the State Education Tax Act, respectively, which would result in:

- An increase in the number of promise zones that can be authorized from 10 to 15.
- Additional reporting requirements as part of a promise zone plan.
- Ways for a promise zone to be dissolved.

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. This section would not be added to the Authority Act.

SB 539 also would increase to 15 from 10, the maximum number of Promise Zones that can be created. Presently, Section 5(4) of the Promise Zone Act (MCL 390.1645) contains the 10-zone maximum. 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 15 certifications.

The Department of Treasury could dissolve a promise zone if that promise zone authority did 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, as well as a requirement that a zone "be used solely for purposes of promoting access to postsecondary education pursuant to resolution of the governing body of the eligible entity."

SB 539 also would add a complete description of the criteria and procedures by which the performance of students receiving financial assistance pursuant to the proposed plan will be assessed and reported as a required part of the promise zone plan. This methodology would 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 pursuant to the authority's approved 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 graduation rate for students who first received financial assistance pursuant to the authority's approved promise zone development plan during each of the six prior academic years.

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

House Bill 539 would have an indeterminate fiscal impact on state and local government. By increasing the maximum number of eligible promise zone entities from 10 to 15, the bill could reduce the amount of revenue available to the state School Aid Fund from the State Education Tax (SET) depending on a number of factors, including (1) the number of eligible communities that chose and were approved to establish promise zones; and (2) the resulting impact on property values and economic activity (if any).

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). There are currently 8 eligible entities that have established promise zones and are eligible for reimbursement, most of which 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 8 promise zones: Baldwin, Battle Creek, Benton Harbor, Hazel Park, Lansing, Muskegon ISD, Pontiac, and Saginaw.

The bills could increase local revenue to the extent that the incentive of the tax increment financing encouraged private contributions for tuition payments, but would also create local costs for communities with promise zones by creating an obligation to make tuition payments for eligible students. The Michigan Promise Zone Authority Act requires that a promise zone authority prepare a development plan that includes an actuarial model of how much the proposed plan is estimated to cost. The bill could also increase reporting costs for promise zone authorities by requiring that their development plans include data on progress of students receiving tuition support.

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