



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 539 (Substitute S-2 as passed by the Senate)
Senate Bill 540 (as passed by the Senate)
Sponsor: Senator Goeff Hansen (S.B. 539)
 Senator Jim Ananich (S.B. 540)
Committee: Economic Development and International Investment

Date Completed: 12-2-15

RATIONALE

The Michigan Promise Zone Act and Michigan Promise Zone Authority Act provide 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, but the Department may not certify more than 10 promise zones at any one time. Apparently, several communities have been waiting to apply for promise zone certification but cannot do so because of this limit.

Other aspects of the promise zone laws are considered problematic, as well. Recently, the Jackson Promise Zone was dissolved, which has raised concern that the dissolution language within the Acts is not clear or sufficient. Additionally, some have 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 has been suggested that the Acts be consolidated, with some revisions and additional requirements, and that the maximum number of certified promise zones be increased.

CONTENT

Senate Bill 539 (S-2) would repeal the Michigan Promise Zone Act and amend 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.**
- **Increase from 10 to 15 the maximum number of eligible entities that may be certified by the Department of Treasury to establish 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 was certified by the Department; and allow the Department to dissolve the promise zone if a development plan were not submitted within five years.**
- **Require a promise zone development plan to include provisions regarding the assessment and reporting of student's performance.**
- **Require promise zone development plans approved under the Act before the bill's effective date to be amended as necessary to meet the proposed assessment and reporting requirements.**
- **Allow the Department to adjust the calculation of captured State Education Tax revenue if the boundaries of a promise zone would be changed by a merger or other circumstance.**
- **Allow the Department to dissolve a promise zone if the 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.

- 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 would amend 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.

Senate Bill 540 is tie-barred to Senate Bill 539.

Both the Michigan Promise Zone Act and the Michigan Promise Zone Authority Act permit 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. Under each Act, "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 greater than or equal to the State average, as determined by the Department of Treasury.

Senate Bill 539 (S-2)

Proposal to Establish Promise Zone

Under the Michigan Promise Zone Act, 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.

The bill would include these provisions in the Michigan Promise Zone Authority Act.

Application Submission & Deadline

The Michigan Promise Zone Act 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.

The bill would include these provisions in the Michigan Promise Zone Authority Act, but would change the deadline for a governing body to submit an application from 30, to 15, days after the public hearing.

Option to Create a Separate Promise Zone

Under the Michigan Promise Zone Act, 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 bill would include these provisions in the Michigan Promise Zone Authority Act.

Maximum Allowed Promise Zones

The Michigan Promise Zone Act 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 may still create a promise zone as detailed in the Act, but may not receive captured revenue from the State Education Tax.

The bill would include these provisions in the Michigan Promise Zone Authority Act, but would increase to 15 the maximum number of eligible entities the Department may certify.

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.

Under the bill, the promise zone development plan would have to be submitted to the Department within five years after the eligibility to establish the promise zone was certified by the Department. If a promise zone development plan were not submitted within this time frame, the Department could dissolve the promise zone.

The bill also would require a development plan to include a complete description of the criteria and procedures by which the performance of the students receiving financial assistance would be assessed and reported. The assessment and reporting methodology would have to include the submission of a written report by October 31 of each year to the Department. The report would have to 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 of students who successfully completed a certificate or associate program, or 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 graduation rate for students who first received financial assistance from the promise zone development plan during each of the six prior calendar years. The annual report could obtain the required information, in whole or in part, from any reliable source that complied with applicable laws regarding student privacy.

The bill would require any promise zone development plan approved under the Act before the bill's effective date to be amended as necessary to meet the assessment and reporting requirements described in the bill. That amendment would have to include a first annual reporting deadline not later than October 31, 2017, and be submitted by the board to the Department within 60 days after the bill's effective date. The amendment would be 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 would allow the Department of Treasury to adjust the calculation of the tax revenue capture if the boundaries of a promise zone were changed by merger or other reasons.

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 would require 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.

If a 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, the Department could dissolve the promise zone.

Also, under the bill, the dissolved promise zone would no longer count against the limit of 15 certifications by the Department of Treasury.

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 would 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 would apply 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 2010¹. 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 2005².

At the State level, Public Acts 549 and 550 of 2008 created the Michigan Promise Zone Authority Act 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 is \$11,866. The State average for attending a community college during the 2015 fall semester is \$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 increasing the maximum number of promise zones allowed under Michigan law, the legislation would give more students an opportunity to attend postsecondary institutions. In addition to

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.

improving the future of Michigan youths, this would help to close the talent and skilled trade gap that Michigan faces.

Supporting Argument

Increasing the number of promise zones would greatly support those communities that may otherwise not be included. Specifically, Flint has been unable to apply for promise zone designation because the Act allows a maximum of 10 promise zones to be certified. According to committee testimony, Flint is in the stages of rebirth. One of the best ways to improve the economy and positively affect the region is through the education of the city's youths. Therefore, increasing the maximum allowed promise zones to 15 could enhance the current and future economy of cities like Flint, assuming their eligibility is certified by the Department.

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 on the K-12 budget. Therefore, there should be some concern over the potential outcomes of both continuing to spend State dollars on promise zones and increasing the number of promise zones that the State contributes to. 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 could have a fiscal impact on the School Aid Fund. The bills would have no impact on administration or local units of government. Increasing the number of promise zones from 10 to 15 could result in an increase in the amount of promise zone reimbursement from the School Aid Fund. For FY 2015-16, the School Aid Fund uses roughly \$610,000 toward reimbursing promise zones. The other changes in the bills would 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. None of the amendments would affect or require any changes to operations or current practice.

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.