

HIGHER EDUCATION PROMISE ZONES

House Bill 5135 (Substitute H-1)
Sponsor: Rep. Holly Hughes

House Bill 5330 (reported without amendment)
Sponsor: Rep. Jon Bumstead
Committee: Education

Complete to 6-13-12

A SUMMARY OF HOUSE BILLS 5135 (H-1) & 5330 AS REPORTED FROM COMMITTEE 6-7-12

The bills would amend sections of the Michigan Promise Zone Authority Act (MCL 390.1667, 390.1671, and 390.1675) to revise: (1) eligibility requirements, (2) minimum payment amounts, (3) the use of revenues, and (4) the budget approval process for some authorities. A more detailed description of both bills follows.

Minimum amount of financial assistance

Now under the law, a Michigan Promise Authority develops a promise zone development plan that includes its proposed promise of financial assistance for post-secondary students living in its geographic zone. Under the law, the proposed promise of financial assistance must, at a minimum, provide funding that covers the tuition necessary to obtain an associate's degree (or its equivalent) at a community or junior college, and at most provide sufficient funding to obtain a bachelor's degree (or its equivalent) at a public postsecondary institution in Michigan (or a combination of such institutions).

House Bill 5135 (H-1) would revise this provision by eliminating "tuition necessary to obtain an associate degree (or its equivalent)," and specifying, instead, that the proposed promise of financial assistance must be an amount established by the board "to reflect the amount available for disbursement to eligible students and included in the annual budget under Section 15."

Further, House Bill 5135 (H-1) specifies that the amount of the proposed promise of financial assistance must, "at a minimum, equal or exceed the amount the board determines is sufficient to pay the tuition necessary for an eligible student to obtain an associate degree *or a certificate* from a community or junior college in this state, *or to complete a vocational program*," and shall not exceed the amount sufficient to pay for the tuition to obtain a bachelor's degree. Under the bill, *vocational program* is defined to mean "an education or training program intended to teach a trade, occupation, or vocation, and offered by a public or private postsecondary institution in this state."

GPA limitations

Currently, the Michigan Promise Zone Authority board must provide a complete description of any limitation on the promise of financial assistance, under certain circumstances. House Bill 5135 would retain these provisions, and expand them to include "if the promise of financial assistance is limited to students whose cumulative high school grade point average exceeds a specified minimum. However, a board may revise, establish, or eliminate a high school grade point average requirement for students after it submits a promise zone development plan to the Department of Treasury, and is not required to amend the plan or obtain approval from the department for the change."

Budget must contain per-student disbursement amounts

Also under current law, the director of a Promise Zone Authority must submit a budget to the authority board before the beginning of a fiscal year, and board members must review it before submitting it to the governing body for approval. After the governing body approves the budget, the authority board can adopt it. House Bill 5135(H-1) would retain this provision. Further, the bill would require that the budget include the amount the authority intended to disburse to each eligible student in the fiscal year covered by the budget. The bill specifies that, subject to the maximum amounts described in Section 7(2)(a) [described above], the board shall 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.

House Bill 5330 would clarify how a Promise Zone Authority can use its revenues to cover administrative costs, and revise the budget approval process for certain authorities.

Budget approval process

At present, an authority board reviews its budget each fiscal year, then submits it to the governing body (that created the authority) for approval, and only then adopts its budget. House Bill 5330 would retain this provision for all promise zone authorities unless the eligible entity whose governing body created an authority was a local school district with fewer than 1,000 pupils. In that case, the board of the authority could adopt a budget without submitting the budget to the governing body and without obtaining the governing body's approval of the budget.

Administrative costs

Now, a Promise Zone Authority cannot expend more than 15 percent of the proposed budget for administrative costs. House Bill 5330 would clarify this provision. Instead, the bill specifies that *beginning in the first fiscal year in which the authority received revenue from the state from the capture of State Education Tax SET) revenue under Section 17, the authority may use not more than 15 percent of the amount of that revenue to pay for administrative costs.*

FISCAL IMPACT:

House Bill 5135(H-1) would tend to reduce the necessary financial requirements of a promise zone scholarship program in permitting programs to use high school grade point

average (GPA) as an initial eligibility factor. Currently the approved promise zone development plans include, at a minimum, a requirement that a student obtain a high school diploma or GED from the local school or schools within the promise zone. They don't specify a minimum high school GPA required for initial eligibility, but they typically require students to maintain a minimum college GPA for continued eligibility. The introduction of a high school GPA requirement as an initial eligibility factor would reduce the number of eligible students. For instance, a 2011 study of the Pittsburgh Promise scholarship program by the Rand Corporation noted that only 53.6% of 2010 Pittsburgh Public Schools graduates met the 2.5 minimum cumulative GPA requirement for PPS assistance.¹

House Bill 5330 would have an indeterminate fiscal impact on local promise zone authorities depending on the amount of the authority's budget and the amount of captured State Education Tax (SET). Under current law, administrative expenses are limited to 15% of an authority's budget. The bill provides, instead, that beginning in the year the authority receives a payment from the SET capture, administrative expenses are limited to 15% of the SET capture. The only promise zone receiving a payout from the SET capture currently is the Baldwin Promise Zone. Under Enrolled House Bill 5372 (H-1) CR-1*, the authority is to receive a payout of \$106,800 in FY 2011-12 and a payout of \$135,300 in FY 2012-13. The FY 2012-13 Baldwin Promise Zone budget has yet to be approved by the local school board (although that requirement would change under the bill), so it isn't immediately known what the authority's budget or the 15% cap will be under the existing provisions of the act. However, based on a SET capture payout of \$135,300 for FY 2012-13, administrative expenses would be capped at \$20,295 [$\$135,300 \times 15\%$] under the provisions of the bill.

POSITIONS:

The Muskegon Area Intermediate School District supports House Bill 5135. (6-7-12)

The Muskegon Area Promise Zone authority supports House Bill 5135. (6-7-12)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

¹ *Fulfilling the Pittsburgh Promise: Early Progress of Pittsburgh's Postsecondary Scholarship Program*, RAND Corporation, 2011, <http://www.rand.org/pubs/monographs/MG1139.html>