



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

## BILL ANALYSIS



Telephone: (517) 373-5383  
Fax: (517) 373-1986

Senate Bill 312 (as enacted)  
Sponsor: Senator Goeff Hansen  
Senate Committee: Economic Development  
House Committee: Education

**PUBLIC ACT 210 of 2013**

Date Completed: 6-5-14

**CONTENT**

**The bill amended the Michigan Promise Zone Authority Act to do the following:**

- **Include assistance for vocational education or training in a promise of financial assistance for postsecondary education made by a promise zone authority.**
- **Require the amount of financial assistance identified in a promise zone development plan to reflect the amount available for disbursement included in the authority's annual budget.**
- **Require the amount of an authority's proposed promise of financial assistance to include an amount sufficient to pay for an eligible student's "qualified educational expenses".**
- **Identify additional limitations that may be placed on an authority's promise of financial assistance.**
- **Revise the process for filling vacancies on the board of a promise zone authority.**
- **Revise a limitation on an authority board's administrative expenses.**
- **Revise the process for setting an authority's annual budget, and require the budget to include the amount the authority intends to disburse to each eligible student in the fiscal year.**
- **Revise the procedure for determining an authority's capture of State Education Tax revenue.**

The bill took effect on December 23, 2013.

The Act allows the governing body of an eligible entity to establish a promise zone to ensure financial assistance for postsecondary education to high school graduates who both live and go to school within the zone's boundaries. "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.

**Vocational Program**

As amended by the bill, the Act defines "promise of financial assistance" as a commitment by an eligible entity to provide financial resources for public or private postsecondary education, including a vocational program, to eligible students living in a promise zone who have graduated from a public or nonpublic high school located within the promise zone. Previously, the term did not specifically include a vocational program.

The bill defines "vocational program" as an education or training program intended to teach a trade, occupation, or vocation and offered by a public or private postsecondary institution in Michigan.

### Promise Zone Authorities

The 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.

An 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 bill refers to nine "locally appointed members", and requires the eligible entity's chief executive officer, with the advice and consent of the governing body, to appoint the nine *initial* locally appointed members. If a vacancy occurs in an office of a locally appointed member, the board must appoint a new member to fill that vacancy.

Previously, an appointment to fill a vacancy had to be made by the chief executive officer of the eligible entity for the unexpired term. The bill deleted that provision.

### Promise of Financial Assistance

The Act requires a promise zone authority to prepare a promise zone development plan. The plan must contain a complete description of the proposed promise of financial assistance, which must include a promise of financial assistance to all students residing within the promise zone who graduate from a public high school or nonpublic high school located within the promise zone. The bill refers to "eligible students" in that provision. The bill also specifies that the financial assistance must be in an amount established by the board (the authority's governing body) to reflect the amount available for disbursement to eligible students and included in the authority's annual budget.

Previously, the proposed promise of financial assistance was required to provide, at a minimum, funding sufficient to provide an eligible student with the tuition necessary to obtain an associate degree or its equivalent at a Michigan community or junior college or a combination of community or junior colleges and, at most, funding sufficient to provide an eligible student with the tuition necessary to obtain a bachelor's degree or its equivalent at a public postsecondary institution in Michigan or a combination of public postsecondary institutions in Michigan, subject to any authorized limitations.

Under the bill, the amount of a proposed promise of financial assistance, at a minimum, must equal or exceed the amount the board determines is sufficient to pay the qualified educational expenses of an eligible student to obtain an associate degree at a community or junior college in Michigan, and it may not exceed the amount the board determines is sufficient to pay the qualified educational expenses for an eligible student to obtain a bachelor's degree or its equivalent at a public postsecondary institution in this State or a combination of such institutions. The bill defines "qualified educational expenses" as tuition and fees required for the enrollment or attendance of a student at an educational institution and expenses for fees, books, supplies, and equipment required for courses of instruction at that educational institution.

Under the Act, the proposed promise of financial assistance also may provide funding for an eligible student to attend a private college in Michigan. The bill requires this funding to be in an amount that does not exceed the average qualified educational expenses to obtain a

bachelor's degree at all Michigan public universities. Previously, the funding had to be in an amount not to exceed the average tuition to obtain a bachelor's degree at all public universities in Michigan.

Under the bill, a promise zone development plan must include 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 governmental entity, as determined by the board. Previously, the Act included this requirement but referred to "tuition and fees", rather than qualified educational expenses.

#### Limitations on Assistance

The Act requires a promise zone development plan to include a complete description of any limitation on the promise of financial assistance as allowed in the Act. Under the bill, those limitations include if the promise of financial assistance is limited to students whose cumulative high school grade point average exceeds a specified minimum. 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 that change.

The bill requires a description of limitations also to include the following:

- If the promise of financial assistance is limited to students who comply with requirements established by the board in order to improve student progress toward degree completion.
- If the promise of financial assistance in a promise zone that encompasses more than two school districts is limited to students who live in and graduate from high schools located within the boundaries of fewer than all of its constituent school districts.

#### Administrative Costs

The Act authorizes a promise zone authority board to employ and establish the compensation of a director, treasurer, secretary, and other personnel the board considers necessary. The board also may retain legal counsel to advise the board in the proper performance of its duties.

Under the bill, beginning in the first fiscal year in which it receives revenue from the State from the capture of State Education Tax revenue, an authority may use not more than 15% of the amount of that revenue to pay for administrative costs. Previously, an authority could not spend more than 15% of its proposed annual budget for administrative costs.

The bill requires an authority board, within 120 days after the end of each fiscal year, to submit the authority's audited financial statements for that fiscal year to the Department of Education. The board must include a certification that it and the authority are in compliance with the Act, with the requirements of the Michigan Promise Zone Act, and with the authority's approved promise zone development plan.

#### Board Budget

The bill requires the board of an authority to adopt a budget for the operation of the authority for each fiscal year, based on a budget submitted to it by the director. Previously, the Act required the director of a promise zone authority to submit a budget to the board for the operation of the authority for each fiscal year.

Previously, after the board's review, the budget had to be submitted to the governing body of the eligible entity, and the governing body had to approve the budget before the board could adopt it. The bill deleted those requirements.

The bill requires the budget to include the amount the authority intends to disburse to each eligible student in the fiscal year. Subject to the maximum assistance amounts described in the Act, the board must establish the amount of the annual payment to eligible students. In making that determination, the board must consider the financial resources available to the authority for disbursement to those students.

### SET Capture

As described below, the Act provides for the State to "capture" half of the incremental growth in 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.

The authority must determine the base year for calculating the amount of incremental growth for the capture of the SET. Under the bill, the base year is the amount of revenue received from the collection of the SET in the promise zone in the year immediately preceding the year in which an authority makes its initial payment of qualified educational expenses in accordance with the promise of financial assistance or the amount of revenue received from the collection of the SET in the promise zone in any one of the five immediately succeeding years, whichever is less. Previously, in the description of the base year, the Act referred to the initial payment of tuition or the amount received from the collection of the SET in the promise zone in any one of the three immediately succeeding years, whichever was less.

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 at any time the authority does not make annual payments of qualified educational expenses in accordance with the promise for financial assistance, any amount captured from that promise zone must be paid into the School Aid Fund.

Previously, these provisions applied if the authority continued to make, or did not make, annual tuition payments (rather than annual payments of qualified educational expenses).

MCL 390.1663 et al.

Legislative Analyst: Patrick Affholter

### **FISCAL IMPACT**

The bill will have an indeterminate effect on the expenses of promise zone authorities and an unknown impact on revenue received by authorities. With the inclusion of vocational education programs, the costs of providing promise zone grants may increase to the extent of any reimbursement for the new programs.

Generally, the bill will not alter the revenue an authority may capture from the State Education Tax. However, by altering the definition of base year revenue, the bill will create a larger set of circumstances under which an authority can capture revenue or increase the amount of the capture. An authority can capture revenue only if the State Education Tax revenue collected in the zone exceeds collections in the base year. If SET revenue in the zone declines in any of the five years after the zone begins making disbursements, the base

year is redefined from the year before the disbursement began to the year with the lowest amount of SET revenue collections. (Because the authority can capture increases in revenue only relative to the base year, there would have been no capture in those years. However, the capture would be larger once revenue growth did occur because of the lower, redefined base year.) Previously, the time horizon for redefining the base year was three years. As a result of this extension, once property taxes have grown sufficiently to allow an authority to capture revenue, the bill will increase the amount of the capture. The changes will have no effect on an authority where SET revenue does not decline after disbursements begin.

In addition, a local promise zone authority may see a change in spending on administrative costs under the bill, which changed the cap on spending for administrative costs from 15% of the total proposed annual budget to 15% of the SET revenue captured. Since the SET is a component or subset of the total proposed annual budget, the change in the cap likely will mean less revenue available for spending on administrative costs. Although the bill reduces the allowable spending on administrative costs while the authority is receiving SET revenue, the bill also removes the cap on administrative costs in years in which the authority does not receive captured SET revenue.

Fiscal Analyst: Kathryn Summers  
David Zin

S1314\312es

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.