

HIGHER EDUCATION PROMISE ZONES

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House Bill 4575 (Substitute H-1)

Sponsor: Rep. Jon Bumstead

Committee: Education

Complete to 6-12-13

A SUMMARY OF HOUSE BILL 4575 (H-1) AS REPORTED FROM COMMITTEE

The bill would amend sections of the Michigan Promise Zone Authority Act to revise: (1) eligibility requirements, (2) minimum payment amounts, (3) the use of revenues, and (4) the budget approval process for some authorities, (5) and also to require annual audits of a Promise Zone's budget. A more detailed description of the bill follows.

That act, created in 2008, provides for the creation of "promise zones" to allow communities with areas of higher than average poverty to create special authorities whose purpose is to raise funds to provide tuition for postsecondary education to high school graduates who both live and go to school within the zone's boundaries. Authorities that can successfully raise money privately to fund tuition assistance are eligible to capture of a portion of the incremental growth in revenue within the zone from the State Education Tax (SET). There is a cap of ten such authorities.

Minimum amount of financial assistance

Under the act, 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. Now 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 4575 would revise this to require that the proposed promise of financial assistance 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, the amount promised would, at a minimum, have to equal or exceed the amount the board determined was sufficient to pay for the tuition, *mandatory fees, and other necessary expenses* to obtain an associate degree, and could not exceed the amount the board determined was sufficient to pay for the tuition, *mandatory fees, and other necessary expenses* to obtain a bachelor's degree (or its equivalent) at a public, Michigan university.

Vocational program eligible

House Bill 4575 makes explicit that a promise of financial assistance for postsecondary education can include a vocational program. The bill defines "vocational program" 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.

Grade Point Average (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 4475 would retain these provisions, and expand them, adding three new possible limitations. The additional limitations for financial assistance that must be described include: (5) "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"; (6) "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*; and (7) If the promise of financial assistance in a promise zone that encompasses more than two school districts is limited to students who *reside in and graduate from high schools located within the boundaries of fewer than all of its constituent school districts*.

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 (that created the authority) for approval. After the governing body approves the budget, the authority board can adopt it.

House Bill 4575 would modify this provision to require instead that the board adopt a budget for the operation of the authority for each fiscal year based on a budget submitted to it by the director. The bill would retain the language "unless authorized by the governing body, the budget of an authority shall not include any money of the eligible entity."

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.

Administrative costs

Now, a Promise Zone Authority cannot expend more than 15 percent of the proposed budget for administrative costs. House Bill 4575 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*.

Base year calculation

Now under the law, the members of the Promise Zone Authority determine the base year that will be used to calculate the captured incremental SET growth within the zone. That base year is the year that immediately precedes the year in which an authority makes its initial payment of *tuition*. House Bill 4575 specifies, instead, its initial "payment of *tuition, mandatory fees, and other necessary expenses*." Further, the law now requires that be done in accord 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 three immediately succeeding years, whichever is less. House Bill 4575 specifies, instead, the collection of the SET within the zone in "a succeeding year," whichever is less.

Board vacancies; Term of service

Now under the law, a Promise Zone Authority operates under the supervision and control of a board consisting of 11 members, nine of whom are appointed by the chief executive officer (that is, the school superintendent) of the governing body, and one each appointed by the Majority Leader of the State Senate, and the Speaker of the State House of Representatives. Not more than three members of the board can be government officials, and one member must be a representative of the public school community. House Bill 4575 would retain all of these provisions, and also specify that if a vacancy occurred in an office *of a locally appointed member*, then the board would appoint a new member to fill that vacancy.

Now under the law, board members are initially appointed to one, two, three, and four-year terms. House Bill 4575 retains that provision, but specifies thereafter, the term of office would be four years for all board members.

Annual audit

Finally, the bill would require that within 120 days after the end of each fiscal year, the board of a Promise Zone Authority submit audited financial statements to the Michigan Department of Education, including a certification that the board and authority are in compliance with both the act, and with the Promise Zone development plan.

MCL 390.1663, et al.

FISCAL IMPACT:

The bill would potentially reduce the financial requirements of a promise zone scholarship program by 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 a possible initial eligibility factor could, based on local action, reduce the number of eligible students by an indeterminate amount.

The bill would also 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. Any impact would depend on when individual zones began capturing SET revenue and the amount of administrative expenses incurred by those zones.

POSITIONS:

The Muskegon Promise Zone supports the bill. (5-22-13)

The Muskegon Area Intermediate School District supports the bill. (5-22-13)

The Michigan Association of School Administrators supports the bill. (5-22-13)

The Michigan Association of Intermediate School Administrators supports the bill. (5-22-13)

The Detroit Regional Chamber of Commerce supports the bill. (5-22-13)

Dean Transportation, Inc. supports the bill. (5-22-13)

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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.