13 What are the main funding sources for Promise programs?

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Promise programs vary in whether they rely on private and/or public dollars, but they typically leverage existing sources of financial aid and seek sustainable funding that will ensure maximum confidence in the program.

Funding sources for Promise programs include both public and private resources. Most programs build on the federal and state need-based aid unlocked by the FAFSA, bringing less "new" money to students but providing a predictable funding stream. Most community-based Promise programs make use of private (often philanthropic) resources, statewide programs are generally funded with public money, and community college–based programs usually rely on the institutions' own financial resources. Financial sustainability should be a key goal of Promise programs at all stages of their development; in its absence, stakeholders run the risk of breaking their promise to students and communities.

Policy Considerations

- From the start, Promise programs should identify financial sustainability as an essential goal.
- Aim to diversify funding sources by identifying potential resources within a state or community and cultivating relationships to help fund the Promise program.
- When exploring funding options, stable revenue sources, such as endowments, trusts, perpetual gifts, or tax-increment funding, will offer the most value.
- Promise programs will benefit from a long-term fundraising plan.

What We Know

When deciding how to fund the scholarship, student services, and administrative/overhead components of a Promise program, stakeholders must consider different factors such as existing revenue streams; their ability to mobilize their community, state, or institution to either raise or appropriate funds; and the amount of money needed for the students they are planning to serve. Promise programs have three main revenue sources: private funds, public funds, and a combination of the two.

Private sources include local, national, and postsecondary foundations; endowments; businesses/corporations; and individual donors. **Public sources** include local and state appropriations; lottery funds; tax credits; tax-increment financing; funding from school or community college

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districts, cities, or towns; and sales and property taxes. Promise programs often use funding from both revenue categories through public-private partnerships. This allows the program to leverage the available resources in their community and/or state (especially when one source of funding is not enough) and to diversify their funding sources in case not all of them are available year-to-year. A combination of funding also allows administrators more flexibility in their use of funding to meet the needs and goals of the program.

A majority of Promise programs leverage available state and federal financial aid, such as the Pell grant, to help fund the scholarship component of the program. Since 2020, some states have used federal pandemic relief funding through either the Governor's Emergency Education Relief Fund or Higher Education Emergency Relief Fund to create or expand eligibility.[1]

Typically, the design and implementation of the Promise program is shaped by the type, amount, and sustainability of available funding sources. Some local and statewide programs rely on nonrecurring funds, which means that when the funding expires (usually after a year), it requires state or local policymakers to get funding approval again. If they are not successful, Promise program administrators need to either find another funding source or reduce the benefits given to students. In a 2021 survey by the College Promise Campaign, 20% of Promise programs reported that they reduced the length of their award due to decreased funding during the COVID-19 pandemic.[2] In addition, several states had to either revoke Promise scholarships or place Promise students on a waiting list because of reduced funding due to state budget cuts during early stages of the pandemic.[3]

Promise programs may also have trouble covering the amount needed to implement and administer their programs. In Oregon, the state legislature provided $1.66 million to offer support services to recent high school graduates (including Oregon Promise recipients) who enrolled in community colleges. In the next legislative session, the funding was not renewed. Community colleges then either had to find funding to cover those services or reduce/eliminate the services if they could not afford to pay for them out of their budgets.[4]

Promise programs that lack a clear vision for ensuring financial sustainability may run into problems in later years when initial funding is exhausted or budgetary funds are not renewed. Therefore, it is important to make financial sustainability throughout the life cycle of the Promise program a high priority by engaging in financial planning and implementing policies and strategies that align with this goal.[5] In a 2018 survey by the College Promise Campaign, about

[1] Billings, M. S., Li, A. Y., Gándara, D., Acevedo, R., Cervantes, D., & Turcios-Villalta, J. (n.d.). *Financing free college programs: Where the money comes from and where the money goes* (Working paper).

[2] College Promise Campaign. (2021). *Financial sustainability for college promise programs: Navigating through and beyond COVID-19*. College Promise Campaign.

[3] St. Amour, M. (2020, October 8). *College promise programs wrestle with pandemic realities*. Inside Higher Ed.

[4] Burkander, K., Kent, D. C., & Callahan, K. (2019). *The case of Oregon Promise: An early adopter focused on broadening access*. Research for Action

half of Promise programs reported that they had sustainability concerns.[6] Their reasons included increasing demand for the program (51%), limited control over yearly budget allocation (37%), setting and meeting annual fundraising goals (36%), setting and meeting endowment goals to fully fund the Promise program (22%), and using endowment funds beyond the annual endowment interest rate (6%). Statewide Promise programs were more likely to report concerns about their limited control over yearly budget allocations, while Promise programs that serve school districts and cities were more likely to report concerns with setting and meeting annual fundraising goals.

Some Promise programs have sought to ensure sustainability by creating endowments; however, building an endowment of sufficient size to generate the income needed to run a Promise program over the long term is an expensive and time-consuming endeavor. It is also difficult to build an endowment while operating a Promise program, since some of the funds being raised end up being used for operations. There are alternatives to endowment funding—for example, the Kalamazoo Promise donors, who have not set up an endowment, have issued legal guarantees that their funding will continue in perpetuity, lottery proceeds are used to fund Tennessee Reconnect, and well-established foundations can issue a multiyear funding guarantee rather than supporting a program on an annual basis or tying up funds to create an endowment.

Recommended Reading

College Promise Campaign. (2021). *Financial sustainability for college promise programs: Navigating through and beyond COVID-19*. College Promise.

This report describes the funding streams for Promise programs, reports challenges related to funding because of the COVID-19 pandemic and offers recommendations to ensure the financial sustainability for programs.

College Promise Campaign. (2018). *Playbook: How to build a promise*. College Promise.

A resource for city and county elected officials to build College Promise programs for their communities. It includes information on the steps needed to create a Promise program and provides planning documents from several existing Promise programs.

Li, A., & Mishory, J. (2018, December). *Financing institutions in the free college debate*. Century Foundation.

This report provides a framework for state financing of free-college programs. It summarizes studies on how Promise programs affect demand and provides policy guidance on how to design and implement free college programs that anticipate capacity challenges.

Kanter, M., Meotti, M. P., DeAlejandro, K., Hiestand, R., & Weissman, E. (2019, July 31). *Promises to keep: Findings on College Promise financial sustainability*. MDRC and the College Promise Campaign.

This webinar discusses a 2018 survey on the financial sustainability of College Promise programs conducted by the College Promise Campaign. It also includes panelists from tnAchieves and Washington's Husky Promise about how they think about financial sustainability practically in the context of their programs.

[5] Millett, C. (Ed.). (2017). *Designing sustainable funding for college promise initiatives*. Educational Testing Service.

[6] MDRC and the College Promise Campaign. (2019). *Promises to keep: Findings on college promise finance sustainability* (Powerpoint slides). MDRC and the College Promise Campaign.

> When you offer a program built on the notion of free tuition, what you're really trying to do is build trust with students. If the program isn't strong enough to survive economic shifts and market volatility, it won't work.
>
> **Mike Krause, former executive director of the Tennessee Higher Education Commission, discussing the Tennessee Promise**

Case Study: Michigan Promise Zones

In 2009, under Democratic Governor Jennifer M. Granholm, the State of Michigan adopted legislation allowing communities to establish Promise Zones in areas with above average poverty rates. Communities that were interested in the Promise Zone status had to apply to the state for recognition, and the Department of the Treasury designated 10 communities out of 15 applicants as the Michigan Promise Zones.[7] Eight years later, Republican Governor Rick Snyder signed a bill that expanded the number of Promise Zones from 10 to 15.[8] The list of the current Promise Zone communities are available here: https://promisezonesmi.com/promise-zone-map/

The Michigan Promise Zones offer eligible students last-dollar scholarships that cover tuition and fees for at least an associate degree. Depending on the Promise Zone, the scholarship is either a set amount (e.g., a maximum of $5,000 for the Baldwin Promise) or indexed to tuition and fees at the local community college (e.g., Oakland Community College for the Hazel Park Promise). Eligibility for the scholarship is based mainly on residency – students need to live and attend school within the boundaries of the Promise Zones. Most of the scholarships are prorated based on the length of local school district enrollment, with considerable variation among the Promise Zones on the specific entry grade required to receive 100% of the scholarship.[9]

The Promise Zones are funded through a unique public-private partnership. In the first two years of operation, Promise Zones are funded by private sources, usually donations by local businesses and individuals. Beginning in the third year of operation, Promise Zones can receive funding through tax-increment financing or a "tax capture" mechanism that automatically awards half the growth in the state education tax (SET) within the zone to the Promise Zones to pay for the scholarships.[10] The SET is indexed to a baseline year, and the SET needs to exceed the baseline year for the Promise Zones to receive funding. Due to the Great Recession, the SET declined in most of the Promise Zones, so many Promise Zones did not receive the tax-increment funding until years after their third year of operation.[11]

[7] Billings, M. S. (2020). The echo of a promise: The impact of state-designated Michigan promise zones. In L. Perna & E. Smith (Eds.), *Improving Research-Based Knowledge of Promise Programs* (pp. 173-197). American Education Research Association.

[8] Michigan Promise Zones Association. (n.d.). *History of Michigan Promise Zones*.

[9] Billings, M. S. (2020). The echo of a promise: The impact of state-designated Michigan promise zones. In L. Perna & E. Smith (Eds.), *Improving Research-Based Knowledge of Promise Programs* (pp. 173-197). American Education Research Association.

[10] Michigan Promise Zones Association. (n.d.). *How Promise Zones Work*.

[11] Billings, M. S. (2020). The echo of a promise: The impact of state-designated Michigan promise zones. In L. Perna & E. Smith (Eds.), *Improving Research-Based Knowledge of Promise Programs* (pp. 173-197). American Education Research Association.