

Legislative Analysis



NEW MERIT AWARD

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 1335

Sponsor: Sen. Cherry

House Committee: Appropriations

Senate Committee: Appropriations

House Bill 6302

Sponsor: Rep. Hunter

House Committee: Appropriations

Complete to December 4, 2006

Note: House Bill 6302 as introduced is identical to the introduced version of Senate Bill 1335. The analysis below is based on the Senate-passed version of Senate Bill 1335, which reflects changes from the introduced version of the bill related to (1) vocational education programs that do not record grades and (2) application of money received by an institution to a student's outstanding indebtedness. These changes do have any significant fiscal impact, so the information in the "Fiscal Impact" section below applies to both Senate Bill 1335 and House Bill 6302.

A SUMMARY OF SENATE BILL 1335 AS PASSED BY THE SENATE AUGUST 30, 2006

Senate Bill 1335 would create a new Michigan Merit Award Act that would provide scholarship awards to Michigan students beginning with the high school class of 2007. The bill would repeal the existing Michigan Merit Award Scholarship Act effective September 30, 2017.

Under the current Merit Award Program, students qualifying on all four parts of the high school Michigan Merit Exam,¹ or through specified alternative exam-based qualifying methods, receive awards of \$2,500. Students performing well on the middle school MEAP exam can receive an additional award amount of up to \$500. Awards are paid in two installments (\$1,500 each for a student receiving the maximum \$3,000 award) over the first two years of a student's postsecondary enrollment. The FY 2006-07 appropriation for the program is \$127.7 million.

Under the new act, students completing two years of postsecondary education (associate's degree, two-year certificate, vocational education program, or 50 percent of the academic requirements for a bachelor's degree) would receive an award of \$4,000. The payment schedule for this award would vary depending on a student's high school exam performance:

- Students not qualifying on the Merit Exam but completing two years of postsecondary education would receive an award of \$4,000 after those two years.

¹ Currently the MEAP exam; anticipated to become the ACT exam during calendar year 2007.

- Students qualifying on the Merit Exam and completing two years of postsecondary education would receive \$1,000 per year in the first two years and \$2,000 at the end of two years. Students qualifying on the Merit Exam who did not complete two years of postsecondary education would still receive the \$1,000 payments in their first two years of postsecondary enrollment.

Effectively, the existing high school exam-based Merit Award would continue to exist, with the current \$2,500 award amount reduced to \$2,000 (two payments of \$1,000 each). Students receiving the reduced exam-based award would receive \$2,000, rather than \$4,000, when they completed two years of postsecondary education. The middle school exam-based award would cease to exist.

Students completing a vocational training program requiring less than two years to complete would be eligible for a prorated award amount.

Students would have to meet several additional requirements to receive a Merit Award under the new act:

- Complete three credits each of college-preparatory math and science in high school (beginning with the high school class of 2011; applies only to the \$2,000 exam-based payment).
- Take the Merit Exam.
- Enroll at an approved postsecondary institution in Michigan or a military service academy within two years of becoming a high school graduate (two-year period would be extended for service in armed forces or Peace Corps).
- Complete the postsecondary education requirements (associate's degree, etc.) within four years of initial enrollment at the postsecondary institution.
- Achieve a cumulative college grade point average of 2.50 (except for students completing vocational education programs that do not record grades).
- Not have received a Merit Award under the current Merit Award Act. (This analysis assumes that, beginning with the class of 2007, students would no longer claim awards under the current Merit Award Act.)
- Submit a written certification of his or her eligibility for an award.

The Merit Award program established under the bill would be administered by the Department of Treasury, which would be required to submit an annual report on the program to the Governor and Legislature and would be authorized to promulgate rules to implement the act. (Under the current Merit Award Act, a Merit Award Board is established to oversee the program.)

Awards would continue to be paid from the Merit Award Trust Fund, which receives a portion of the state's tobacco settlement revenue. If the department determined that insufficient funds were appropriated to pay awards under the act in a given fiscal year, the department would be required to prorate awards amounts to reflect available resources, but only after 30 days notice to the Governor and Legislature.

The department would pay the Merit Award to a postsecondary institution on a student's behalf. The institution would apply the money received to the student's outstanding indebtedness, if any, and deliver the balance of the money to the student.

FISCAL IMPACT:

The table below compares the projected costs of the new Merit Award Program under Senate Bill 1335 to the existing program. Because precise information on the number of students completing two years of postsecondary education is not available, these projections are based on a number of simplifying assumptions.

Projected Merit Award Costs Millions of Dollars

<u>Fiscal Year</u>	<u>Current Program</u>	<u>Senate Bill 1335</u>	<u>Cost Increase/ (Savings)</u>
2007-08	\$128.0	\$109.6	(\$18.4)
2008-09	129.3	92.3	(37.0)
2009-10	130.6	194.6	64.0

Assumptions:

- 1) 1.0% annual growth in Merit Exam qualifiers
- 2) 2.0% annual growth in initial college enrollment
- 3) 70% of college students complete two years of postsecondary education (and do so within two years of high school graduation)
- 4) 80% of two-year completers were Merit Exam qualifiers

The bill would result in estimated cost savings to the state in FYs 2007-08 and 2008-09 of \$18.4 million and \$37.0 million, respectively. This is a result of the reduction from \$2,500 to \$2,000 in the amount paid over two years to students qualifying on the high school Merit Exam and the elimination of middle school exam-based awards.

In FY 2009-10, state costs would increase by an estimated \$64.0 million as students from the high school class of 2007 began completing two years of postsecondary education. This estimated cost increase would continue, with moderate annual growth, for subsequent fiscal years.

The bill could also create additional administrative costs for the Department of Treasury due to the new requirements of making awards to students completing two years of postsecondary education. Those costs are indeterminate at this time.

Fiscal Analyst: Kyle I. Jen

■ 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.