

Legislative Analysis



CHILDREN OF VETERANS TUITION GRANT PROGRAM

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

House Bills 4001 and 5091 as enrolled
Public Acts 248 and 249 of 2005
Sponsor: Rep. Bill Caul

House Bill 4002 as enrolled
Public Act 250 of 2005
Sponsor: Rep. Tim Moore

House Committee: Veterans Affairs and Homeland Security (HB 4001 and HB 4002)
Tax Policy (HB 5091)

Senate Committee: Appropriations

Second Analysis (12-22-05)

BRIEF SUMMARY: The bills would separate the tuition grant program for the children of veterans from the fund that provides emergency assistance grants to needy veterans. House Bill 4001 would repeal Public Act 245 of 1935, which provides for a tuition grant program for the children of certain veterans funded by the Michigan Veterans Trust Fund, and create a similar program to be administered by the Michigan Higher Education Assistance Authority. House Bill 4002 would delete four outdated sections in the Michigan Veterans Trust Fund Act. House Bill 5091 would create an income tax checkoff allowing taxpayers to contribute money for the tuition grant program.

FISCAL IMPACT: House Bill 4001 would have an indeterminate impact on state and local governments, primarily due to minimal administrative costs for the tuition waiver program. House Bill 4002 would have no fiscal impact on state or local government. House Bill 5091 would have no fiscal impact on income tax revenue and, based on data on previous checkoffs, could generate between \$0.5 million and \$1.0 million annually for the Michigan Higher Education Assistance Authority. For additional information, see Fiscal Information later in the analysis.

THE APPARENT PROBLEM:

Public Act 245 of 1935 created a veterans tuition grant program to provide the children of veterans who were killed or are missing in action or who have died or are totally disabled as a result of service-related injuries with grants to attend the state's colleges and universities. The program was originally established within the Department of Education, and later moved to the Michigan Veterans Trust Fund Board of Trustees with the enactment of Public Act 371 of 1965. Responsibility for the program was later transferred to the Department of Military and Veterans Affairs by Executive Order 1995-15 (compiled at MCL 35.615).

Between 1935 and 1946, it appears that universities simply waived the tuition and absorbed the tuition program's costs. Between 1946 and 1968 the tuition grant program was funded from appropriations from the General Fund, through the Department of Education. Since FY 1969-1970 (Public Act 236 of 1969), the tuition grant program has

been funded from the principal and earnings of the Michigan Veterans Trust Fund (MVTF), which was created by Public Act 9 of 1946 (First Extra Session) and funded by a \$50 million post-World War II reserve created by Public Act 4 of 1943.

According to the MVTF Board of Trustees, “the basic mission of the Michigan Veteran’s Trust Fund is to grant financial assistance to meet the emergency needs of qualified veterans and their dependents until plans can be made for more permanent care...” However, over the years, the fund has been used for purposes other than those explicitly provided for in the MVTF Act. In 1959, the fund was liquidated in order to provide additional revenue for the General Fund. The fund was again liquidated in 1976 to provide additional support for the General Fund and to pay special assessments on homestead property (principal residences) that had been granted deferments.

Needless to say, these uses of the trust fund have not been without controversy, as the trust fund was established only to provide grants to needy veterans. Today, the earnings of the MVTF are first provided to support the tuition grant program and to cover state administrative costs. The balance of the earnings is used for the emergency assistance grants. However, increases in the tuition grant program over the past 20 years have resulted in a reduction in the emergency assistance funding.

Problems with the allocation of funding from the MVTF nearly resulted in the end of the tuition grant program in the mid-1990s. In an attempt to meet the demands for emergency assistance grants for FY 1994-1995, the MVTF Board of Trustees voted in June 1995 to suspend the payments for the tuition program for the rest of that year. In July 1995, the MVTF director requested an opinion from the attorney general on the authority of the board to suspend the tuition payments “in order to sustain the Emergency Grant Program” and on the “obligation on the part of the Michigan Legislature to provide sufficient resources to the MVTF for the Tuition Grant Program to prevent a drain of revenues originally designated for the operations of the Emergency Grant Program.”

In a letter opinion dated August 1, 1995 the attorney general ruled that the MVTF could not suspend tuition payments and ordered the MVTF to continue to administer the program as mandated by law. (The attorney general declined to rule on the other questions related to funding the program, as those concerns were principally the province of the legislature and not the Office of the Attorney General.)

In response to the actions of the MVTF and concerns raised by veterans receiving assistance, the legislature sought to ease the financial burden of the tuition grant program by limiting the amount of assistance under Public Act 245 to \$2,800 per year, although students enrolled prior to October 1, 1996 are still eligible to receive a waiver on all tuition costs. A proposal in the 1995-1996 legislative session would have established a separate Veterans’ Dependents’ Education Fund, in order to provide funding for tuition grants, but it remained on the House floor through the adjournment of the 1995-1996 legislative session.

Earlier this year, the MVTF board again voted to suspend payments for the tuition grant program, notifying students that the "Department of Military and Veterans Affairs appropriation for Fiscal Year 2005-06 beginning October 1, 2005 does not provide a general fund appropriation for Public Act 245 of 1935 as amended (Education of Children of Veterans)...As a result of the appropriation decision, the Trustees of the Michigan Veterans Trust Fund have suspended tuition payments beginning with academic terms starting on or after January 1, 2006. The Michigan Veterans Trust Fund will make payments for academic terms already begun or scheduled to begin prior to January 1, 2006 regardless of when we actually receive the billing from [the] school."

However, the legislature recently enacted a supplemental appropriations bill (Public Act 297 of 2005/Senate Bill 236) that restores funding for the tuition grant program for the remainder of the fiscal year with an appropriation of \$500,000 (GF/GP).

Given recent history of the tuition grant program, a new long term funding source is necessary. This would not only ensure the long term viability of the program, but would also allow the MVTF to return to its original and primary purpose of providing emergency assistance grants to veterans in need. To that end, legislation was been proposed to transfer the tuition grant program from the Michigan Veterans Trust Fund and the Department of Military and Veterans Affairs to the Michigan Higher Education Assistance Authority, and fund the program, at least in part, through an income tax checkoff.

THE CONTENT OF THE BILLS:

House Bill 4001 - Children of Veterans Tuition Act

The bill would repeal Public Act 245 of 1935 and create a new act to be known as the Children of Veterans Tuition Act, which would provide the children of certain Michigan veterans with grants for college tuition. The tuition grant program would be administered by the Michigan Higher Education Authority beginning in the 2005-2006 academic year. The bill generally rewrites and updates the provisions of Public Act 245. The bill is tie-barred to House Bills 4002 and 5091, and would take effect on January 1, 2006.

Benefits - Under the program, eligible full-time students would receive a grant for the cost of tuition, up to \$2,800. Eligible part-time students would receive a grant equal to half of the grant for a full-time student. A student could not receive a tuition grant under the bill and/or Public Act 245 for more than four academic years. The authority could, upon providing notice to the legislature, reduce the amount of the grant on a prorated basis due to funding limitations. Students eligible for tuition assistance under Public Act 245 for the 2005-2006 academic year would be also eligible for assistance for that academic year under HB 4001.

[Public Act 245 waives the first \$2,800 in tuition and fees for all eligible full-time students at private and public institutions who entered the program after October 1, 1996. Students may receive aid under Public Act 245 for up to 36 months of full-time

equivalent status. For students who entered the program before October 1, 1996, the program waives all tuition and fees for those attending a public institution and the first \$2,800 for those attending a private institution. Public Act 245 does not provide a tuition waiver to students enrolled in the program after October 1, 1996 who are part-time students.]

Eligibility – To be eligible for a grant, students would have to meet the following criteria: (1) be enrolled as a full-time or part-time undergraduate student at an eligible institution; (2) be between 17 and 25 years of age; (3) be the natural or adopted child of a “Michigan veteran” who was killed in action or died from another cause while serving in a war, is adjudged to have died from a service-related injury or be totally and permanently disabled as a result of a service-related injury, is deceased but, prior to death, was adjudged to be totally and permanently disabled from a service-related injury, or is officially listed as missing in action (MIA); (4) be a U.S. citizen or permanent resident of the U.S. and be a resident of the state for the 12-months immediately prior to application; (5) maintain a cumulative grade point average of at least 2.25; (6) be free of felony convictions involving assault, physical injury, or death; and (8) otherwise be compliant with the act and applicable rules.

[The first four criteria are included in Public Act 245, and the GPA requirement is contained in the administrative rules. The bill requires students to be a child of a veteran who is “totally and permanently disabled,” whereas current law provides that the veteran be “totally disabled.” Again, Public Act 245 does not provide tuition assistance to part-time students.]

Authority responsibilities - The tuition grant program would now be administered by the Michigan Higher Education Authority. Among other responsibilities, the authority would promulgate rules necessary for the administration of House Bill 4001, including rules providing additional eligibility standards. The authority would also be required, within 120 days of the bill's effective date, to notify students receiving tuition assistance of the repeal of the Public Act 245 and the availability of assistance under House Bill 4001. The authority would also be required to submit a report by December 1 of each year to the House and Senate Appropriations Subcommittees on Higher Education and Community Colleges and the House and Senate Fiscal Agencies stating the total number of grants, total amount of grants, and the number and amount of grants provided to students at each institution.

House Bill 4002 - Veterans Trust Fund Act amendments

The bill would make no material change to the Michigan Veterans Trust Fund Act. It would simply eliminate the following outdated sections:

-- Section 1a, concerning the repayment of the balance of the trust fund following the fund's liquidation in 1959. (MCL 35.601a)

- Section 1b, concerning the transfer of funds from the trust fund and a repayment from the general fund related to the construction of the veterans home in Grand Rapids. (MCL 35.601b)
- Section 1c, concerning repayment of the balance to the trust fund and appropriations for the continuation of the programs funded by the trust fund (including the tuition grant program) following the trust fund's liquidation in 1976. (MCL 35.601c)
- Section 1e, concerning an appropriation from the trust fund for veterans facilities in FY 1980, and the repayment of the from the general fund. (MCL 35.601e)
- Section 1f, concerning an appropriation from the trust fund for the construction of an outpatient facility at the Grand Rapids veterans home, and the repayment of the balance of the trust fund. (MCL 35.601f)

House Bill 5091 – Income Tax Checkoff

The bill would amend the Income Tax Act (MCL 206.437) to create a tax checkoff program beginning with the 2006 tax year to permit taxpayers to designate a contribution of \$2 or more to the Michigan Higher Education Assistance Authority for the Children of Veterans Tuition Program. The contribution would be subtracted from a taxpayer's refund or added to the taxpayer's tax liability. An amount equal to the total amount of contributions would be appropriated from the General Fund to the Children of Veterans Tuition Program and distributed under the Children of Veterans Tuition Act.

BACKGROUND INFORMATION:

Veterans Programs

Last legislative session, Public Act 363 of 2004 (Senate Bill 1269) established a Military Family Relief Fund, to be funded through an income tax checkoff. The fund provides assistance grants to families of members of the reserve component of the U.S. Armed Forces based in the state and to the families of state residents serving in a reserve component based in another state called into activity duty in response to the September 11th attacks or a national emergency. The families must have a documented need for financial assistance. The grants are capped at \$2,000 per year, although the amount can be increased in extraordinary circumstances.

For further information on the Tuition Grant Program, the Michigan Veterans Trust Fund, and other state programs for veterans see the House Fiscal Agency's November 2000 report entitled, "Fiscal Focus: Michigan Veteran's Programs." The report is available on the HFA's website at <http://www.house.mi.gov/hfa/PDFs/veteran.pdf>

Other Income Tax Checkoffs

The income tax checkoff established by Public Act 364 of 2004 (House Bill 5953) allows taxpayers to designate contributions of \$1 or more to the Military Family Relief Fund.

The checkoff generated just over \$500,000 in FY 2005, and is expected to generate approximately \$750,000 in FY 2006.

In addition, Public Act 160 of 2005 (Senate Bill 503) reinstated the income tax checkoff for the Children's Trust Fund. Money generated for the fund is available for disbursement upon authorization from the Child Abuse and Neglect Prevention Board.

FISCAL INFORMATION:

House Bill 4001

The transfer of administrative responsibility for the tuition grant program from the Department of Military and Veterans Affairs to the Department of Treasury effectuated by House Bill 4001 would have no net fiscal impact on state government. Certain changes in the eligibility provisions for the program established in current law to the new program created by this bill could impact state costs. Allowing part-time students to receive a partial tuition grant could increase grant costs. Changes related to the disability requirement for the parents of children receiving grants and the time limit for receiving grant payments could reduce grants costs. The overall fiscal impact of these changes on grant costs is indeterminate.

Enrolled Senate Bill 236, a Capital Outlay budget bill which also contains certain supplemental appropriations, contains an appropriation of \$500,000 GF/GP in the Higher Education budget to fund the FY 2005-06 costs of the tuition grant program beginning on January 1, 2006. There will be a savings of roughly this amount to the Veterans Trust Fund in FY 2005-06 which can be used either to provide emergency assistance grants to veterans or to help ensure the trust fund's ongoing solvency.

In the future, a portion of the tuition grant program's annual costs of roughly \$1.0 million will be funded through the income tax return contribution check-off created by the enacted version of House Bill 5091. Remaining costs will presumably be funded through a GF/GP appropriation.

House Bill 4002

House Bill 4002 would have no fiscal impact on state or local government. It deletes five outdated sections in Public Act 245 of 1935.

House Bill 5091

Between 1991 and 1999, the state provided income tax checkoffs for the Nongame Wildlife Fund and the Children's Trust Fund, which averaged \$569,081 and \$771,351, respectively, during those years. In their last year of existence (1999), the Nongame Wildlife Fund earned approximately \$534,000 and the Children's Trust Fund earned approximately \$938,000.

ARGUMENTS:

For:

The bills would separate the tuition grant program for the children of certain veterans from the fund that provides emergency assistance grants to needy veterans. One of the bills would put a checkoff on the state income tax form to encourage taxpayers to make charitable contributions to support the grant program. The bills should put both the tuition program and the emergency assistance program on a sure footing and put an end to conflict between the two programs.

Proponents say that the bills are necessary to ensure the continuation of the emergency assistance grants provided by the Michigan Veterans Trust Fund. The principal purpose of the trust fund is to provide emergency assistance grants, not the tuition grants under Public Act 245. There has never been a clear statutory basis for requiring the MVTF to support the tuition grant program. The administration of the tuition grant program was transferred from the Department of Education to the MVTF Board with the enactment of Public Act 371 of 1965, and MVTF money was first used for the tuition grant program in FY 1969 (see Public Act 236 of 1969). To this day, the MVTF Act contains no specific provision requiring that a portion of the trust fund's earnings support the tuition grant program. It seems that historical inertia of more than 30 years, more than anything, has required the MVTF to support the tuition grant program. (An August 1995 letter opinion of the attorney general seems to require the continued support from the trust fund, notwithstanding its impact on the funding for the emergency assistance grants.)

The MVTF's funding of the tuition grant program takes away available funding for the emergency assistance grants for veterans in need. This has been a longstanding problem, particularly when the earnings of the trust fund decline, as evidenced by the attempt by the MVTF to suspend tuition payments in 1995. The tuition grant program has become the principal beneficiary of the earnings from the MVTF, and when those earnings decrease and tuition costs increase, they are balanced out by declines in the emergency assistance grants. This goes against the principal purpose of the trust fund. The income tax checkoff established by House Bill 5091 will provide partial funding for the program.

In addition, transferring administrative responsibility for the program from the Department of Military and Veterans Affairs to the Michigan Higher Education Assistance Authority makes sense as the MHEAA currently administers other scholarship programs, including a similar federal scholarship for the children of veterans.

Legislative Analyst: Mark Wolf
Fiscal Analysts: Kyle Jen
Rebecca Ross

■ 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.