



**House
Legislative
Analysis
Section**

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**REVISE MICHIGAN MERIT AWARD
SCHOLARSHIP PROGRAM**

**Senate Bill 926 (Substitute H-1)
First Analysis (5-22-02)**

**Sponsor: Sen. John J. H. Schwarz
House Committee: Appropriations
Senate Committee: Appropriations**

THE APPARENT PROBLEM:

In 1999, the legislature established the Michigan Merit Award Scholarship program. The program provides a scholarship to eligible high school students, if they score well on the Michigan Educational Assessment Program (MEAP) high school test, or on college entrance examinations. See *BACKGROUND INFORMATION* below. According to committee testimony, 40,000 students from the class of 2000 submitted applications for the program, and that number increased to 43,000 students from the high school class of 2001. Each year the program costs between \$80 million and \$90 million, and it is funded by revenue from the state's settlement in the class action lawsuit that many of the country's attorneys general filed against those who manufacture and distribute tobacco products, despite their toxic effects. More than 90 percent of high school students who earn the scholarship use the money to attend a post-secondary institution here in Michigan.

The House Fiscal Agency notes that currently the Michigan Merit Award Scholarship program accounting system establishes accounts payable for seven years for each graduation class. That period of time--seven years--corresponds to the current eligibility period for students who earn the scholarship. That is to say, a student who earns the Merit Award Scholarship must use the \$2,500 award (an amount that is reduced to \$1,000 if it is used at an out-of-state institution) at an eligible in-state post-secondary institution within seven years.

During consideration of Executive Order 2001-9, which reduced state spending for the current 2001-2002 fiscal year, the executive branch of government assumed total savings of \$55 million for the Merit Award Trust Fund. The savings were calculated by imposing new rules that would limit the use of the program, reducing the number of eligible students who would apply, and also changes the accounting practices. In particular, the Department of

Management and Budget in consultation with the legislature's appropriations committee members proposed to reduce the scholarship program's eligibility period from seven years to two years, and also to specify that applicants make their intent to use the program known to the governing board on or before September 30. These changes would cut the program's costs an estimated \$15 million. In addition, the department estimates that \$7 million in savings will be realized because the number of scholarships awarded this year is expected to decline. Finally, changes in the department's accounts payable accounting practices are expected to reduce overall annual costs \$33 million.

Legislation was proposed in the Senate to amend the statute to confirm to changes previously made by executive order. However, according to committee testimony, the change in the eligibility period from seven to two years is likely to work a hardship on those for whom university tuition is too costly during the first years of their college experience. Often young people begin their four-year (or, frequently five-year) undergraduate college experience in a local two year community college where tuition costs are low, with the plan to transfer to a higher cost four-year university after completing their first two years of study. Taking the first two years of undergraduate school near home allows the students to work part-time jobs, and save money for university tuition, room, and board. When students who have earned Merit Scholarship Awards follow this path, they sometimes wait to use their one-time \$2,500 scholarships until the third year following their high school graduation, after they transfer and as they begin taking their coursework at the higher cost university.

Reducing the students' eligibility period from seven years to two years would require the students who earned the scholarship to use the money within the first two years after high school graduation, rather

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than apply it to their higher cost university tuition. Consequently, the Senate-passed version of this bill has been amended to reduce the program's current eligibility period from seven years, to four years.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Merit Award Scholarship Act to restrict student eligibility for scholarships to within four years of graduating from high school or passing the general educational development (GED) test; currently a student has seven years after graduating or passing the GED to apply for a scholarship. The bill would allow a student who became a member of the United States armed forces or the Peace Corps during this four-year period to extend his or her eligibility by a period equal to the number of days served, not to exceed four years. Also, the Merit Award Board could extend the four-year period due to an illness or disability of the student or in the student's immediate family, or another family emergency.

In addition, the bill would add a requirement for eligible students to certify their participation in the scholarship program by September 30 in the academic year in which they would use the scholarship funds; if a student did not certify by September 30, he or she could not receive a scholarship until the following academic year. (The current law requires eligible students to certify to the Michigan Merit Award Board the name of the approved post-secondary institution in which they are enrolled, and that they have graduated from high school or passed the GED within the prescribed time limit.)

Currently the act requires the board to report certain information to the governor and the legislature. The bill would expand the reporting requirements to include the number of graduating high school seniors who met the requirements for a Michigan Merit Award Scholarship.

[Note: House Bill 5880 (H-3), currently moving through the legislative process, also amends the Michigan Merit Award Scholarship Act, and it would add the social studies MEAP test as a requirement for earning the Merit Award Scholarship, beginning after the 2003-2004 academic year. If both bills were passed, then a conflict substitute would be necessary for the bill that passed last.]

MCL 390.1455 - 390.1458

HOUSE COMMITTEE ACTION:

The House Appropriations Committee adopted two amendments to the Senate-passed version of the bill. The Senate-passed version of the bill would have restricted student eligibility for scholarships to within two years of graduating from high school or passing the general educational development (GED) test. Instead of the two-year restriction, the members of the House Appropriations Committee voted to extend the eligibility period from two years to four years. In addition, the members of the committee adopted a technical amendment in order to correct an out-dated legal citation that was in the Senate-passed version of the bill.

BACKGROUND INFORMATION:

Currently under the law, the Michigan Merit Award Scholarship program makes \$2,500 scholarships available to eligible high school students who enroll in approved post-secondary in-state educational institutions (or \$1,000 scholarships if enrolled out-of-state), if a student has passed high school assessment tests offered through the Michigan Educational Assessment Program (MEAP), in the subject areas of reading, writing, mathematics, and science, and has received qualifying results in all of them; or in all but one or two of them but received an overall score in the top 25 percent of a nationally recognized college admission examination; or received a qualifying score or scores on a nationally recognized job skills assessment test. In addition and under the law, the scholarship program makes awards to students while in grades 7 and 8 when they earn qualifying results on subject matter tests in reading, writing, mathematics and science. A student receives a \$250 scholarship for qualifying results on two of the four tests; a \$375 scholarship for results on three of the four tests; and, a \$500 scholarship for results on all four of the tests. According to committee testimony, this scholarship is available to the student when he or she passes the high school test.

Social studies MEAP test. House Bill 5880, a bill now moving through the legislative process, would amend the Michigan Merit Award Scholarship Act to include the use of a student's results from his or her social studies assessment for purposes of qualifying for the Merit Award Scholarship. The inclusion of social studies test results would begin with assessment tests taken by students after the 2003-2004 school year. House Bill 5880 also specifies that beginning with MEAP assessment tests taken by students after the 2003-2004 school year, social

studies also would be included as a qualifying examination for the middle school scholarship. While in grades 7 and 8, a student could earn a \$200 scholarship for qualifying in two of the five subject area assessments of reading writing, mathematics, science, and social studies; a \$300 scholarship for qualifying results in three subject matter assessments; a \$400 scholarship for qualifying results in four subject matter assessments; and a \$500 scholarship for qualifying results in all five examinations. The bill would define "social studies" to mean that term as defined in section 1279 of the Revised School Code. [Section 1279 defines social studies to mean "geography, history, economics, and American government."]

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that by proposing a usage time-limit of four years instead of two years, the House substitute version of Senate Bill 926 would cost \$2.7 million, saving an estimated \$12.3 million in fiscal year 2002, rather than the \$15 million that is assumed in Executive Order 2001-9. (Further, the \$2.7 million cost is expected to increase to \$6 million by the year 2011.) This would reduce the overall anticipated savings in the Merit Award Trust Fund to \$52.3 million, instead of the \$55 million in savings that is estimated for the Senate-passed version of the bill. (5-21-02)

ARGUMENTS:

For:

This bill is good policy for two reasons. First, it recognizes the need to reduce spending in the current year, and cuts costs in the Merit Award Scholarship Program by \$52.3 million, in line with the anticipated savings to the Merit Award Trust Fund that were assumed when Executive Order 2001-9 was implemented. Second, the bill is a good one because it modifies the change in policy proposed by the Senate to better ensure the scholarship is available to middle and working class students. According to committee testimony, many hardworking students who earn the scholarship make a decision to delay using the award until their third year of undergraduate studies. Customarily these students attend local community colleges for the first two years after graduating from high school, with the intention of transferring to a four-year university to complete their undergraduate degree. These scholarship winners plan their academic careers in this manner, in order to save on tuition costs and to earn money while working part-time jobs, which

enables them to afford their transfer to a higher cost four-year university. In order to help these transfer students and others, the seven-year eligibility period should not be reduced to two years, but instead to four years.

Against:

This change in the eligibility period for the Merit Award Scholarship from seven years to four years would limit the scholarship's use for those who completed (or began) their undergraduate studies out-of-state, with the expectation they would use all of a portion of their \$2,500 scholarship award to pay the tuition or expenses for graduate school (or the remainder of undergraduate school) after moving back to Michigan to attend an in-state university.

Response:

The bill provides that those who graduated from high school or passed the test or examination before March 1, 2002, could use their scholarship within a seven-year period. The new four-year eligibility period would apply to those who qualified after March 1, 2002.

POSITIONS:

There are no positions on the bill.

Analyst: J. Hunault

■ 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.