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SFA**BILL ANALYSIS**

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House Bill 4666 (Substitute H-3 as passed by the House)
Sponsor: Representative Charles Perricone
House Committee: Education
Senate Committee: Government Operations

Date Completed: 5-26-99

CONTENT

The bill would create the “Michigan Merit Award Scholarship Trust Fund Act” to establish the Michigan Merit Award Scholarship program, and to do the following:

- **Establish the “Michigan Merit Award Trust Fund”, which would include revenues the State received from the tobacco settlement, as specified in the bill.**
- **Establish the Michigan Merit Award Trust Fund Commission to administer the program, provide for the appointment of members, and specify the Commission’s duties.**
- **Set eligibility requirements, including receiving qualifying results on Michigan Education Assessment Program (MEAP) tests, for students to receive a Merit Award Scholarship.**
- **Require a Merit Award Scholarship to be used to pay tuition and fees at an approved postsecondary educational institution, as well as specified related costs.**
- **Require the Commission to submit yearly to the Governor and Legislature a report on its activities, including information specified in the bill.**

Merit Award Scholarships

Each student enrolled in grade 11 in or after the 1998-99 school year who met the bill’s requirements (and subject to adjustment of the amount), would be eligible for the award of a \$2,500 Michigan Merit Award Scholarship if the student were enrolled in an approved postsecondary institution in the State or the award of a \$1,000 Merit Award Scholarship if the student were enrolled in an approved postsecondary institution outside of the State, if the Commission found that the student while in high school had taken the assessment test in the subject areas of reading, writing, mathematics, and science, and met one of the following:

- Had received qualifying results in each of the

subject areas of reading, writing, mathematics, and science.

- Did not receive qualifying results in one or two of the subject areas, but received an overall score in the top 25% of a nationally recognized college admission examination.
- Did not receive qualifying results in one or two of the subject areas, but received a qualifying score or scores as determined by the Commission on a nationally recognized job skills assessment test designated by the Commission.

(“Assessment test” would mean the MEAP subject area assessments or any successor assessment test designated by the Commission. “Qualifying results” would mean assessment test results, scores, or ranges of scores determined by the Commission that qualified a student for a Merit Award Scholarship under the bill.)

Subject to adjustment of the amount, a student who was enrolled in grade seven in or after the 1999-2000 school year and whom the Commission found had taken the assessment test in each of the subject areas while in grades seven and eight, would be eligible for one of the following additional Merit Award Scholarships: if the Commission found that the student while in grades seven and

eight received qualifying results in two of the subject areas, an additional Merit Award Scholarship of \$250; received qualifying results in three of the subject areas, an additional Merit Award Scholarship of \$375; or, received qualifying results in all of the subject areas, an additional Merit Award Scholarship of \$500.

In addition to the eligibility requirements described above, to be eligible for the award of one or both Merit Award Scholarships, the Commission would have to find that a student satisfied all of the following: had graduated from high school or passed the general education development (GED) test or other graduate equivalency examination approved by the State Board of Education within the seven-year period preceding the student's application to receive his or her Merit Award Scholarship; was enrolled in an approved postsecondary educational institution; had not been convicted of a felony involving an assault, physical injury, or death; had applied for a Pell grant by submitting a free financial reporting form for Federal financial assistance under the Federal Higher Education Act, for a student whose family's adjusted gross income was less than \$50,000; and, satisfied any additional eligibility requirements established by the Commission. For a student who qualified for a Merit Award Scholarship by receiving a qualifying score or scores as determined by a nationally recognized job skills assessment test designated by the Commission, even though the student did not receive qualifying results in one or two of the subject areas of reading, writing, mathematics, and science, the student would have to be enrolled in a vocational or technical education program at an approved postsecondary educational institution.

In any fiscal year, the Commission could adjust the amount of a Merit Award Scholarship available to eligible students based on its determination of available resources and amounts appropriated, but the Commission could not increase an amount by more than 5% in any fiscal year. The Commission would have to notify the Governor, the Speaker of the House of Representatives, and the Majority Leader of the Senate in writing at least 30 days before an adjustment.

The Commission would have to provide each student written notice of whether he or she was eligible for the award of one or both Merit Award Scholarships. If the student were eligible, the written notice also would have to contain the scholarship amount for which the student was eligible, how the student applied for payment of the scholarship, and any other information the Commission considered necessary regarding qualification requirements or conditions relating to the use of the Merit Award Scholarship.

A student enrolled in an approved postsecondary educational institution in the State, who previously

received a \$1,000 Merit Award Scholarship as a student enrolled in an approved postsecondary educational institution outside the State, would be entitled to the award of an additional \$1,500 Merit Award Scholarship.

The bill specifies that it would be the intent of the Legislature that the level of student performance required to achieve qualifying results in a subject area of an assessment test remain approximately the same, and that the Commission not reduce the required level of student performance as a means of increasing the number of Merit Award Scholarships awarded.

Use and Payment of Scholarship

A Merit Award Scholarship could be used only to pay eligible costs. ("Eligible costs" would mean tuition and fees charged by an approved postsecondary educational institution; related costs for room, board, books, supplies, transportation, or day care; and, other costs determined by the Commission.)

The Commission would have to determine the manner and form of application for payment of a Merit Award Scholarship by an eligible student and the procedure for payment to the student or the approved postsecondary educational institution on the student's behalf. As determined by the Commission, upon the request of a student or parent or guardian of a minor student, the Commission could pay a Merit Award Scholarship in two consecutive annual installments rather than one lump sum.

An approved postsecondary educational institution could not consider a Merit Award Scholarship in determining a student's eligibility for a financial aid program administered by the State. The bill specifies that it would be the intent of the Legislature that an approved postsecondary educational institution not reduce institutionally funded student aid because of the Merit Award Scholarship program.

Before payment of a Merit Award Scholarship to a student or an approved postsecondary educational institution, the student would have to certify or affirm in writing to the Commission each of the following: that the student was enrolled at an approved postsecondary educational institution; the name of the approved institution in which the student was enrolled; that the student agreed to use the Merit Award Scholarship only for eligible costs; that the student had not been convicted of a felony involving an assault, physical injury, or death; and, that the student graduated from high school or passed the GED test or approved graduate equivalency examination within the seven-year period preceding the date of his or her application to receive the Merit Award Scholarship.

Trust Fund

The Michigan Merit Award Trust Fund would consist only of interest and earnings from trust fund investments, donations of money made to the Trust Fund from any source, and the following percentages of tobacco settlement revenue: 30% of the tobacco settlement revenue received in fiscal year 1999-2000; 50% of the settlement revenue received in fiscal year 2000-2001; and, 75% of the settlement revenue received in fiscal year 2001-2002 and in subsequent fiscal years. Money in the Trust Fund at the close of a fiscal year would have to remain in the Trust Fund and could not revert to the General Fund. The State Treasurer would have to direct the investment of the Trust Fund. ("Tobacco settlement revenue" would mean money received by the State that was attributable to the master settlement agreement incorporated into a consent decree and final judgment entered on December 7, 1998, in Kelley Ex Rel. Michigan v Philip Morris Incorporated, et al., Ingham County Circuit Court, docket no. 96-84281CZ.)

Subject to appropriation by the Legislature, the Commission could authorize disbursement of funds from the Trust Fund for at least one of the following purposes: Michigan Merit Award Scholarships; expenses properly incurred by the Commission in carrying out its powers and duties; costs associated with the development, preparation, distribution, scoring, and dissemination of assessment test results; funding of the Tuition Incentive Program or its successor; and, other expenditures as determined by law.

Trust Fund Commission

The bill specifies that the Commission's goal would be to increase access to postsecondary education and reward Michigan high school graduates who had demonstrated academic achievement. The Commission would have to exercise its authority, powers, duties, and responsibilities independently of the State Treasurer. All administrative functions, including budgeting, procurement, and personnel functions, however, would have to be performed under the State Treasurer's direction and supervision.

The Commission would consist of seven members, including the State Treasurer or his or her designee, who also would serve as chairperson; the State Superintendent of Public Instruction or his or her designee; the Director of the Department of Career Development or his or her designee; and four members appointed by the Governor with the advice and consent of the Senate. The term of a member appointed by the Governor would be four years. Of the members first appointed, two would be appointed for two-year terms and two would be appointed for four-year terms. An appointed member could be

removed by the Governor for neglect of duty or malfeasance in office. A vacancy would have to be filled for the balance of the unexpired term in the same manner as the original appointment.

The Commission could incur expenses needed to carry out its powers and duties under the bill and would have to compensate its members for reasonable expenses incurred in carrying out their official duties. The Commission's business would have to be conducted in compliance with the Open Meetings Act. The Commission would be required to meet at least annually, keep a record of its proceedings, and comply with the Freedom of Information Act.

The Commission would have to establish a statewide toll-free telephone line and Internet access to receive questions, comments, and complaints concerning the assessment test, including but not limited to, complaints of student cheating on the test, complaints or comments about specific assessment test questions or testing conditions, or other questions, comments, or complaints relating to the development, preparation, distribution, scoring, or dissemination of test results. By September 1, the Commission would have to obtain and make available to the public the questions, and all answers, along with the corresponding answer key, to all assessment tests administered during the preceding school year. Questions that would be used in the next school year's assessment test could be held back from release, but no question could be held back for more than one year.

The Commission could promulgate rules to implement and administer the bill. The rules could include, but would not be limited to, one or more of the following: rules establishing the Commission's administrative procedures; rules governing the qualification requirements for or the award of Michigan Merit Award Scholarships; rules establishing an appeals process from a determination of ineligibility for a Merit Award Scholarship; rules establishing what information or reports a student or postsecondary educational institution could provide to establish eligibility and when they had to be provided; and, rules prescribing the reports to be made by a student awarded one or both Merit Award Scholarships and by a postsecondary educational institution to which the Merit Award Scholarship was paid.

Report to Governor and Legislature

By December 1 of each year, the Commission would have to submit a report on its activities to the Governor and the Legislature. The report would have to contain the following information:

- A list of approved postsecondary educational institutions for the current and immediately

preceding fiscal years.

- The number of Merit Award Scholarships awarded and the total amount of Merit Award Scholarship money paid in the immediately preceding fiscal year.
- A projection of revenues and expenditures from the Trust Fund for the current fiscal year and the next 10 fiscal years.
- The dollar amount of the Merit Award Scholarships available in the current fiscal year, the amount of any adjustments to the dollar amount from the beginning of the immediately preceding fiscal year, and any adjustments to the dollar amount projected for the remainder of the current fiscal year or for the next fiscal year.
- All of the following results, scores, or ranges of scores: used as qualifying results in the immediately preceding fiscal year, determined by the Commission as qualifying results in the current fiscal year, and projected by the Commission as qualifying results for the next fiscal year.
- The number of students who took the assessment tests, the number of students by subject area who received qualifying results, and the number of students who met the requirements for a Merit Award Scholarship, for the immediately preceding fiscal year.
- The number of persons participating in and the amount awarded in the immediately preceding fiscal year under the Tuition Incentive Program or a successor to that program.

At least 60 days before changing the results, scores, or ranges of scores used as qualifying results, the Commission would have to provide written notice of its intent to make a change, and a report explaining its decision, to the standing committees of the Senate and House of Representatives with primary jurisdiction over legislation pertaining to education. The standing committees would have to review the Commission's report and could hold hearings on the Commission's decision.

Legislative Analyst: L. Arasim

FISCAL IMPACT

House Bill 4666 (H-3) provides for the earmarking of portions of the State of Michigan's share of the national settlement agreement with tobacco companies to the Michigan Merit Award Trust Fund. Section 3 of the bill provides that 30% of the State's tobacco money would be earmarked to the Trust Fund in FY 1999-2000. This earmarking would increase to 50% in FY 2000-01 and to 75% in FY 2001-02 and each year thereafter. These earmarkings would provide the Trust Fund with \$115.0 million of revenue in FY 1999-2000, \$150.7 million in FY 2000-01, and \$271.4 million in FY 2001-02.

Section 5 of the bill would require the appropriation by the Legislature of any funds to be disbursed from the Trust Fund. The funds could be appropriated for the four specific purposes listed in the table below, as well as for "other expenditures as determined by law". The following table outlines the FY 1999-2000 appropriations, to date, from the Michigan Merit Award Trust Fund.

| Purpose | Governor/House Recommendation | Senate Recommendation |
|--|-------------------------------|-----------------------|
| Michigan Merit Award Scholarships | "sum sufficient" | \$86,300,000 |
| Michigan Merit Award Commission | \$2,000,000 | \$100 |
| Michigan Education Assessment Program (MEAP) Testing | \$13,000,000 | \$13,000,000 |
| Tuition Incentive Program (TIP) | \$5,250,000 | \$5,250,000 |
| Total | \$20,250,000 | \$104,550,100 |

The Senate Fiscal Agency estimate for the Michigan Merit Award Scholarships is based on an estimated 34,530 eligible students in FY 1999-2000.

Fiscal Analyst: E. Jeffries

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.