

MEMORANDUM



DATE: July 2, 2009
TO: House Appropriation Subcommittee on Higher Education
FROM: Kyle I. Jen, Associate Director
RE: Michigan Promise Grant Program (*Revised for Senate passage*)

The version of House Bill 4441 (the FY 2009-10 Higher Education budget bill) passed by the Senate eliminates all funding for the Michigan Promise Grant Program, including only a \$100 placeholder for the program. The FY 2009-10 Executive Recommendation and the House-passed version of House Bill 4441 had included an appropriation of \$140.0 million for the projected costs of grant payments under the program's governing statute.

This memo provides background information on the Promise Grant Program, as well as information on projected program costs.

Promise Grant Program Background

The predecessor to the Promise Grant Program was the Michigan Merit Award Program, which was established by Public Act 94 of 1999. The Merit Award Program provided financial aid awards to students achieving qualifying scores on the Michigan Education Assessment Program (MEAP) exam. The Merit Award created an incentive for high school students to take the MEAP exam, increasing the amount of data available on exam performance across the state. The high school graduating class of 2000 was the first class to receive awards under the act.

Following original enactment of the statute, there were a number of amendments to the act, including changes in payment and appropriation schedules for the award program. Under the final provisions of the act, awards were made to students achieving qualifying scores on all four components of the Michigan Education Assessment Program (MEAP) examination, or qualifying via two alternate exam-based methods, as follows:

- Eligible students attending in-state postsecondary institutions received an award of \$2,500, paid in two installments of \$1,250 each over a student's first two years of postsecondary study.
- Students also receiving qualifying scores on the middle school MEAP examination received an additional award of \$250 to \$500.

The Merit Award Program was replaced with the Michigan Promise Grant Program, which was created by Public Act 479 of 2006. The high school graduating class of 2006 was the final class eligible for the Merit Award Program; beginning with the high school graduating class of 2007, students have been eligible for the Promise Grant Program.

The Promise Grant Program provides an award of \$4,000 to a student completing two years of postsecondary education, while incorporating an exam-based element similar to the Merit Award. Students receive Promise Grant payments as follows:

- The exam-based payments continue to exist, with the \$2,500 award amount reduced to \$2,000 (two payments of \$1,000 each). The middle school exam-based award was eliminated.

- Students qualifying for the exam-based payments receive an additional \$2,000 upon completion of two years of postsecondary education—for a total award of \$4,000 during their college careers. Students not qualifying for the exam-based award who go on to complete two years of postsecondary education receive the full \$4,000 payment at that time.

Students must take the state assessment exam—the MEAP exam for the high school class of 2007 and the Michigan Merit Exam (which incorporates the ACT college entrance exam) for subsequent classes—to receive the \$4,000 award. Students qualifying on all required components of the exam are eligible to receive the two front-end payments of \$1,000. Those who do not qualify are still eligible for the \$4,000 back-end payment following completion of two years of postsecondary education.

For the high school graduating class of 2007, 54,182 students achieved scores on the MEAP exam that qualified them for the front-end payments. This equates to 45.3% of the 119,396 high school seniors who took the MEAP exam in that year. (Not all students who qualify subsequently enroll in college and claim the award.)

According to the Department of Treasury, the number of students from the class of 2008 qualifying on the Michigan Merit Exam was significant lower: 46,401. One factor in the drop in the number of qualifying students appears to be a reduction in the number of students qualifying by retaking the exam during their senior year.

To receive the back-end payment of either \$2,000 or \$4,000, a student must complete an associate's degree, two-year certificate, or 50% of the academic requirements for a bachelor's degree (60 credit hours). Students completing vocational training programs of less than two years are eligible for prorated awards. A student must have a cumulative college grade point average of 2.50 to receive the award.

The back-end payments are unique relative to other financial aid payments, as the funds do not necessarily have to be expended for college-related costs. The back-end payments will be made by the state to the postsecondary institution designated by a student following completion of two years of postsecondary study.

- If a student is continuing studies at that institution, the payment will presumably be credited to the student's account for costs of the third year of study.
- If the student is not continuing studies at the institution (due to completion of an associate's degree, for example), the payment is to be forwarded by the institution to the student, who can then spend the funds as he or she sees fit.

A Promise Grant award may be claimed at any approved postsecondary institution in the state. A student must enroll in college within two years of high school graduation and complete the equivalent of two years of college studies within four years of initial college enrollment. There are no program requirements related to a student's financial need.

Promise Grant Cost Projections

In the FY 2008-09 Higher Education budget, an appropriation of \$5.2 million is included for Merit Award payments to students who graduated from high school prior to the 2006-07 academic year but delayed college enrollment. An appropriation of \$70.3 million is included for exam-based award payments under the Promise Grant Program to students in high school classes of 2007 and 2008.¹

¹ The original FY 2008-09 appropriation was \$90.5 million. That amount has been reduced by two executive order reductions and a legislative transfer, as a result of fewer students qualifying for and claiming the exam-based award than had previously been projected. As discussed above, one factor in this reduction appears to be a reduction in the number of students qualifying by retaking the exam during their senior year.

The reduction in the exam-based award from up to \$2,500 under the Merit Award Program (ignoring the middle school component) to \$2,000 under the Promise Grant Program resulted in state budget savings in FYs 2007-08 and 2008-09. In FY 2006-07, the final appropriation for the Merit Award Program was \$117.7 million.

Back-end Promise Grant payments to students completing two years of postsecondary education will begin in FY 2009-10: A student graduating from high school in 2007 could complete two years of college in the spring of 2009 and receive the payment in the fall of 2009.

The table below shows current cost projections for the Promise Grant Program as those back-end costs are phased in over the next several budget years. Eventually, the long-run annual costs of the program are expected to be roughly \$190 million. A key question is how quickly the costs will ramp up; reliable, comprehensive data on the average length of time it takes college students to complete 60 credit hours are not available.

TABLE 1
Projected Promise Grant Costs
Millions of Dollars

Fiscal Year	Projected Costs	\$ Change from Prior Year
FY 2008-09	\$70.3	--
FY 2009-10	137.8	\$67.5
FY 2010-11	162.7	25.0
FY 2011-12	175.8	13.0
FY 2012-13	185.2	9.4
FY 2013-14	190.7	5.5
FY 2014-15	192.3	1.6

Since the Merit Award Program was first created, annual appropriations for the Merit Award and Promise Grant Programs have been made from the Merit Award Trust Fund, which receives a portion of the state's annual tobacco settlement payment.

Senate Action Regarding Promise Grant Program

The version of House Bill 4441 (the FY 2009-10 Higher Education budget bill) passed by the Senate eliminates all funding for the Michigan Promise Grant Program, including only a \$100 placeholder for the program. The FY 2009-10 Executive Recommendation and the House-passed version of House Bill 4441 had included an appropriation of \$140.0 million for the project costs of grant payments under the program's governing statute.

Because funding in the Merit Award Trust Fund can be used in a fairly discretionary manner, reducing or eliminating the appropriation for the Promise Grant Program can result in a savings to the state's General Fund/General Purpose (GF/GP) budget—either through a direct transfer to the General Fund or by using the funds to offset GF/GP appropriations for the Medicaid program in the Community Health budget.

Section 5(3) of the Michigan Promise Grant Act states the following:

If in any fiscal year the department determines that the amount appropriated by the legislature for the payment of Michigan promise grants is not sufficient to pay each eligible student the Michigan promise grant amount required under this section for an academic year, the department shall adjust the amount of Michigan promise grants paid under this section by prorating the amounts as necessary to reflect the

available resources and amounts appropriated in that fiscal year. The department shall notify the governor, the speaker of the house of representatives, and the majority leader of the senate in writing at least 30 days before implementing a proration under this subsection.²

If no appropriation for the Promise Grant Program were to be included in the final version of the FY 2009-10 Higher Education budget, payments would not be made to students in the 2008 and 2009 high school graduating classes who have qualified for exam-based awards or to students in the 2007 high school graduating class who have qualified for back-end awards as a result of completing two years of postsecondary education. In sum, an estimated 90,000 to 100,000 students currently eligible to receive an award would not receive payments.

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² Section 6(4) of the act includes similar language.