

MEMORANDUM



DATE: December 21, 2009
TO: House Appropriations Subcommittee on Higher Education
FROM: Kyle I. Jen, Associate Director
RE: Implementation of FY 2009-10 Financial Aid Appropriations

On Friday, December 18, the Michigan Higher Education Assistance Authority (MHEAA) took three actions related to state financial aid programs receiving appropriations in the Higher Education budget:

- Established a maximum award amount of \$510 for the State Competitive Scholarship in FY 2009-10—reduced from \$1,300 in FY 2008-09.
- Allocated \$3.0 million each to Baker College and Davenport University for campus-based awards under the Tuition Grant Program in FY 2009-10.
- Established an effective maximum award amount of \$1,610 for the Tuition Grant in FY 2009-10—reduced from \$2,100 in FY 2008-09.

This memo provides background information on changes to financial aid appropriations in the FY 2009-10 Higher Education budget and more detailed information on the actions taken by MHEAA last week to implement the FY 2009-10 appropriations for State Competitive Scholarships and Tuition Grants.

Background Information

Public Act 132 of 2009, the FY 2009-10 Higher Education budget act, contained a substantial reduction to overall state funding for financial aid programs. As shown in the table below, total state financial aid funding was reduced from \$217.5 million in the original FY 2008-09 budget to \$78.6 million in the initial FY 2009-10 budget—a reduction of \$138.9 million or 63.9%.

FINANCIAL AID FUNDING COMPARISON

State Funding Only; Excludes Federal Funds

<u>Program</u>	<u>FY 2008-09 YTD as of 2/12/09</u>	<u>FY 2009-10 Enacted</u>	<u>\$ Change</u>	<u>% Change</u>
Michigan Promise Grant Program	80,500,000	0	(80,500,000)	(100.0)
Tuition Grants	56,668,100	31,664,700	(25,003,400)	(44.1)
State Competitive Scholarships	32,630,500	14,708,500	(17,922,000)	(54.9)
Tuition Incentive Program	25,200,000	31,200,000	6,000,000	23.8
Michigan Work Study Program	7,326,300	0	(7,326,300)	(100.0)
Michigan Merit Award Program	5,200,000	100	(5,199,900)	(100.0)
Nursing Scholarship Program	4,250,000	0	(4,250,000)	(100.0)
Part-Time Independent Student Program	2,653,300	0	(2,653,300)	(100.0)
Michigan Education Opportunity Grants	2,084,200	0	(2,084,200)	(100.0)
Children of Veterans Tuition Grants	1,000,000	1,000,000	0	0.0
TOTAL	\$217,512,400	\$78,573,300	(\$138,939,100)	(63.9)
 State Funding Sources				
Merit Award Trust Fund	\$105,800,000	\$30,100,100	(\$75,699,900)	(71.6)
State Restricted - Other	300,000	300,000	0	0.0
General Fund/General Purpose (GF/GP)	111,412,400	48,173,200	(63,239,200)	(56.8)
TOTAL	\$217,512,400	\$78,573,300	(\$138,939,100)	(63.9)

Changes to individual financial aid appropriations were as follows:

- Funding for the **Michigan Promise Grant Program** was eliminated. The Executive Recommendation for this program was \$140.0 million. More recent data indicate that, due to a lower-than-projected number of students actually finishing the equivalent of two years of postsecondary education in two years time, funding of approximately \$100 million would have been sufficient to fund the program in FY 2009-10. Costs would, however, increase substantially in subsequent years to eventually reach a level of roughly \$180-\$190 million per year. Neither exam-based awards for graduates from the high school classes of 2008 and 2009 nor back-end awards to students from the high school class of 2007 who have not completed two years of postsecondary education will be paid to students.
- Funding for the two larger state-funded need-based programs—**State Competitive Scholarships** and **Tuition Grants**—was reduced substantially. The Tuition Grant appropriation was reduced by 44.1% to an FY 2009-10 level of \$31.7 million. The Competitive Scholarship appropriation was reduced by 54.9% to an FY 2009-10 level of \$14.7 million (excluding a smaller amount of federal funds utilized for the program). More information on the anticipated changes to these programs is provided below.
- Funding for the **Tuition Incentive Program** was increased by \$6.0 million (or 23.8%) to an FY 2009-10 level of \$31.2 million. This program pays associate's degree tuition costs and a limited amount toward bachelor's degree tuition costs for students who certify as Medicaid-eligible between the 6th and 12th grades and subsequently graduate from high school and enroll in a postsecondary institution. Program costs have increased substantially over the last decade as increasing numbers of eligible students have participated in the program.
- Funding for three smaller need-based programs (**Michigan Work Study, Part-Time Independent Student, Michigan Education Opportunity Grants**) and the **Nursing Scholarship Program** was eliminated. FY 2008-09 appropriations for these four programs had totaled \$16.3 million. No awards will be made to students under these programs.
- A placeholder of \$100 was included for the **Merit Award Program** to allow for a legislative transfer if additional costs are identified for the program, which ended with the high school class of 2006.
- Funding for the **Children of Veterans Tuition Grant Program** was maintained at \$1.0 million (\$300,000 from income tax check-off contributions; \$700,000 GF/GP).

Based on the version of the FY 2009-10 Higher Education budget currently in place, financial aid awards will be made by the Department of Treasury under four state-funded programs in the current academic year: State Competitive Scholarships, Tuition Grants, the Tuition Incentive Program, and the Children of Veterans Tuition Grant Program. No major policy changes are anticipated for the Tuition Incentive Program and the Children of Veterans Tuition Grant Program, given that both programs are fully-funded based on initial cost projections.

State Competitive Scholarship and Tuition Grant Implementation

By statute, actions regarding maximum award amounts for the State Competitive Scholarship and Tuition Grant Programs must be approved by the Michigan Higher Education Assistance Authority (MHEAA). The authority is composed of 15 members representing the various education sectors and the general public, who are appointed by the Governor, and one ex-officio member, the State Treasurer, who serves as the chairman of MHEAA.

The authority met on Friday to approve actions related to the Competitive Scholarship and Tuition Grant Programs, as described below.

State Competitive Scholarship Program

The State Competitive Scholarship Program provides financial aid awards to students attending both public and private colleges and universities who have both (1) a qualifying ACT score and (2) demonstrated financial need. The maximum annual award under the program was \$1,300 in FY 2008-09.

As indicated above, the FY 2009-10 budget includes a reduction of \$17.9 million in state GF/GP funding for the Competitive Scholarship Program. Additionally, as a result of overall reductions to state funding for need-based financial aid, the state will no longer be able to receive approximately \$1.3 million in federal funds that have historically been used to supplement state funding for the program. Total funding expected to be available for the program in FY 2009-10 is \$16.0 million (accounting for a remaining amount of \$1.3 million in federal funds the state will continue to receive).

As a result of the overall funding reduction, MHEAA approved a reduction in the maximum award for the Competitive Scholarship to \$510. Based on information provided by postsecondary institutions, the Department of Treasury estimates that 31,063 students will receive Competitive Scholarships in FY 2009-10, as shown on the attached document provided by the department. Projected expenditures are \$15.8 million--slightly below the amount of available funding.

Tuition Grant Program

The Tuition Grant Program provides financial aid awards to students attending independent colleges and universities based on financial need. Additionally, pursuant to state statute, funding from the appropriation for the program is used to provide supplemental awards to State Competitive Scholarship recipients attending independent institutions, up to the amount of the maximum Tuition Grant award. (Under statute, a student cannot receive an award under both programs.)

In FY 2008-09, the maximum annual award under the Tuition Grant Program was \$2,100, so a student at an independent institution receiving a Competitive Scholarship of \$1,300 could receive up to another \$800 from the Tuition Grant appropriation.

As indicated above, the FY 2009-10 budget includes a reduction of \$25.0 million in funding for the Tuition Grant Program. To help achieve that reduction, two changes were made to the budget bill boilerplate language associated with the program:

- Eligibility was limited to undergraduate students. In FY 2008-09, \$4.6 million was expended for 3,269 Tuition Grant awards to eligible graduate students. Graduate students will not receive grant awards in FY 2009-10.
- The amount of grant awards that can be received by students at any single independent institution was capped at \$3.0 million. The new cap impacts Baker College, at which 14,842 undergraduate students received grant awards or supplemental awards totaling \$20.9 million in FY 2008-09, and Davenport University, at which 5,249 undergraduate students received grant awards or supplemental awards totaling \$6.4 million in FY 2008-09.

In order to comply with the second boilerplate change, MHEAA approved making allocations of \$3.0 million each to Baker College and Davenport University and allowing the two institutions to determine the best method to make grant awards to eligible students. This will require the two institutions to implement either (1) a substantial reduction in the number of grant awards or (2) a significantly lower maximum award amount than the amount for students at other independent institutions, or a

combination of both. Supplemental State Competitive Scholarship awards to students at Baker and Davenport will also need to be paid from these allocations.

Despite the two policy changes described above, estimates from the Department of Treasury (based on information received from independent institutions regarding the number of eligible students) indicate that a reduction in the effective maximum Tuition Grant award amount to \$1,610 is necessary to avoid over-expending the available appropriation for the program. The reduction is the result of two factors:

- An increase in the number of eligible undergraduate students attending independent colleges and universities besides Baker and Davenport—from 13,816 in FY 2008-09 to approximately 15,000 in FY 2009-10 (with some expected attrition).¹
- The increased costs associated with funding supplemental Competitive Scholarship awards from the Tuition Grant appropriation due to the large reduction in the Competitive Scholarship maximum award amount. The difference between the maximum award amounts for the two programs is increasing from \$800 to \$1,100. The costs of the supplemental awards will, therefore, increase from \$4.0 million in FY 2008-09 to an estimated \$6.0 million in FY 2009-10.

MHEAA approved the establishment of the effective maximum award at a level of \$1,610. Section 302(3) of the FY 2009-10 Higher Education budget act reads as follows (in part):

. . . the Michigan higher education assistance authority shall determine an actual maximum tuition grant award per student, which shall be no less than \$2,100.00, that ensures that the aggregate payments for the tuition grant program do not exceed the appropriation contained in part 1 for the state tuition grant program. If the authority determines that insufficient funds are available to establish a maximum award amount of \$2,100.00, the authority shall immediately report to the house and senate appropriations subcommittees on higher education, the house and senate fiscal agencies, and the state budget director, regarding the estimated amount of additional funds necessary to establish a \$2,100.00 maximum award amount.

Under the boilerplate language, the authority is now required to report to the Higher Education appropriations subcommittees regarding the amount of supplemental funding that would be necessary to achieve a maximum award amount of \$2,100. Estimates from the Department of Treasury, shown in the attached document, indicate that an additional \$8.6 million in funding would be needed to support the \$2,100 maximum award amount.

As a technical matter, MHEAA approved retaining a nominal maximum award of \$2,100, to allow for a higher award amount if additional funding is appropriated, but specified that the initial awards actually made to students will be based on the effective maximum of \$1,610.

Copies of the authority resolutions establishing the maximum award amounts for the two programs are attached. Please feel free to call if you have questions regarding this information.

Attachments (3)

c: Mitch Bean, HFA Director
Key Staff

¹ Note also that recent growth in the number of students eligible for Tuition Grants resulted in FY 2008-09 expenditures being \$2.2 million higher than the original appropriation of \$56.7 million for the program. A transfer of funds from the Promise Grant Program line item was approved by the appropriations committees to cover the shortfall.

Michigan Competitive Scholarship (MCS) FY 2009-2010 Projections

Projected MCS Recipients*	Max MTG Award Amount	Estimated MCS Total Award Amount	FY 2009-10 Approp	Fund Balance
31,063	\$ 510	\$ 15,842,130	\$ 16,000,864	\$158,734.00

**based on data provided by institutions*

Michigan Tuition Grant (MTG) FY 2009-2010 Projections

Projected MTG Recipients*	Max MTG Award Amount	Estimated Original MTG Award Amount	Estimated MTG Less than Full Need Attrition**	Actual Original MTG Award Amount	Fund Attrition**	Estimated Actual MTG Award Amount	Estimated MTG Supplement Students Awarded*	Estimated Total MTG Supplement Amount	Estimated Total MTG Funding Required	FY 2009-10 Approp	Fund Balance
15,000	\$2,100	\$31,500,000	4.17%	\$30,186,450	15.17%	\$25,607,166	5,414	\$8,608,260	\$34,215,426	\$25,664,700	(\$8,550,726)
15,000	\$1,610	\$24,150,000	4.17%	\$23,142,945	15.17%	\$19,632,160	5,414	\$5,955,400	\$25,587,560	\$25,664,700	\$77,140

**based on data provided by institutions*

***based on previous year attrition rates*

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

Resolution No. 2009-8

MAXIMUM MICHIGAN COMPETITIVE SCHOLARSHIP AWARD AMOUNT
FOR THE 2009-10 ACADEMIC YEAR

At a special meeting of the Michigan Higher Education Assistance Authority (the "Authority") held on December 18, 2009, by videoconference in Flint, Holland, Lansing, Saginaw and Warren, Michigan.

Present:

Absent:

The following Resolution was offered by Member _____ who moved its adoption and the motion was seconded by Member _____.

Background

A. Pursuant to 1964 PA 208; MCL 390.971 *et seq.* (the "Competitive Scholarship Act"), the Michigan Higher Education Assistance Authority shall administer the Competitive Scholarship Program under the Competitive Scholarship Act.

B. MCL 390.976 requires the Authority to establish a maximum scholarship level for the academic year if the amount of appropriated funds is insufficient to provide each student with the scholarship amount for which the student is eligible.

C. Considering currently available information regarding actual appropriations and number of recipients, the Authority staff recommends that the Authority reduce the maximum Competitive Scholarship Program award to \$510 for the 2009-10 academic year.

NOW, THEREFORE BE IT RESOLVED THAT:

1. The maximum Competitive Scholarship Program Award for the 2009-10 academic year shall be \$510.

ADOPTED:

Yeas:

Nays:

Abstentions:

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

Resolution No. 2009-6

MAXIMUM MICHIGAN TUITION GRANT AWARD AMOUNT FOR THE
2009-10 ACADEMIC YEAR

At a special meeting of the Michigan Higher Education Assistance Authority (the "Authority") held on December 18, 2009, by videoconference in Flint, Holland, Lansing, Saginaw and Warren, Michigan.

Present:

Absent:

The following Resolution was offered by Member _____, who moved its adoption and the motion was seconded by Member _____.

Background

A. Pursuant to 1966 PA 313; MCL 390.991 *et. seq.* (the "Tuition Grant Act"), the Michigan Higher Education Assistance Authority shall administer the Tuition Grant program under the Tuition Grant Act.

B. MCL 390.995 requires the authority to establish a maximum tuition grant level for the academic year if the amount of appropriated funds is insufficient to provide each student with the amount for which the student is eligible.

C. Considering currently available information regarding actual appropriations and number of recipients, the Authority staff recommends that the Authority sets an annual maximum MTG award of \$2,100 for the 2009-10 academic year. However, in order to keep within the current appropriation, it is recommended that the initial award is set at \$1,610. If supplemental funds are provided by the legislature, the award can be increased up to \$2,100.

NOW, THEREFORE BE IT RESOLVED THAT:

1. The maximum Michigan Tuition Grant program award for the 2009-10 academic year shall be \$2,100.
2. In order to keep within the current appropriation, the initial award for 2009-10 will be \$1,610.

ADOPTED:

Yeas:

Nays:

Abstentions: