



**House
Legislative
Analysis
Section**

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

**CREATE VETERANS' DEPENDENTS'
EDUCATION FUND**

**House Bill 5640 with committee
amendments
First Analysis (5-7-96)**

**Sponsor: Rep. Allen Lowe
Committee: Senior Citizens and Veterans
Affairs**

THE APPARENT PROBLEM:

Currently, the Michigan Veteran's Trust Fund provides tuition grants enabling the children of veterans to attend Michigan public institutions of higher education under certain circumstances. In order to be eligible, a child must, among other things, be age 16 through 22, and the legal offspring of a veteran who was either missing or killed in action, died as a result of service-related injuries, or is rated 100 percent disabled due to injuries sustained while in the armed forces. Although the trust fund determines an individual's eligibility for a tuition grant, the federal Department of Veteran's Affairs (formerly known as the Veteran's Administration) is responsible for determining whether a particular veteran's illness, injury, death, or disease arises from that veteran's service.

Prior to 1966, the Veterans Tuition Grant Program had been administered and funded by the Department of Education with money from the general fund. However, since 1969, the program has been funded with interest earnings from the Michigan Veteran's Trust Fund (MVTF). The primary purpose of the Michigan Veterans Trust Fund (MVTF) was to provide temporary assistance to the state's veterans and dependents during times of personal emergency. The emergency assistance program has been funded by the annual interest earnings on a \$50 million reserve fund created after World War II.

According to a paper issued by the Senate Fiscal Agency entitled "State Grant Programs for Veterans", the sharing of the MVTF interest earnings between the tuition grant program and the emergency grant program has become increasingly problematic in recent years. First, interest earnings decreased from 12.6 percent in fiscal year 1982-83 to 7.4 percent in fiscal year 1992-93. Secondly, tuition rates have increased dramatically. For example, the per student expenditure for tuition was \$371 in fiscal year 1969-70 when the MVTF first began funding the tuition program; the fiscal year 1993-94 per student expenditure was \$1,914. In fiscal year 1985-86, tuition grants accounted for only 9.4 percent of the

MVTF grant expenditures, but increased to 33 percent for fiscal year 1994-95. The decrease in interest earnings coupled with the increase in tuition costs have resulted in a decrease in available funds for the emergency grant program from \$4.3 million in 1985-86 to just \$1.1 million for fiscal year 1994-95 -- a clear demonstration that the tuition grant program has begun to take a larger share of the MVTF grant resources.

In an attempt to meet the demands on the emergency grant program for fiscal year 1994-95, the MVTF board of directors voted in June, 1995, to suspend payments to the tuition program for the rest of that year. An attorney general's opinion dated August 1, 1995 ruled that the MVTF could not suspend tuition payments and ordered the MVTF to continue to administer the program as mandated by law. Several ideas have since been explored as to how to continue both the tuition grant program and the emergency grant program. Legislation has now been proposed to create a separate fund for the tuition grant program that would allow for other funding sources, such as grants and private donations, to be utilized to cover the rising tuition costs.

THE CONTENT OF THE BILL:

Current law provides that certain children of Michigan veterans are not required to pay tuition while they attend one of Michigan's state supported educational or training institutions. In order to be eligible to receive this tuition grant the child must be between 16 and 22 years old, a resident of Michigan for the prior 12 months, and the veteran parent must have died or become 100 percent disabled as the result of service or participation in a military action, or be officially listed as missing in action. The statute also limits the amount of tuition to 36 months worth of education and offers extensions that provide eligibility for people over the age of 22 under certain circumstances. In addition, the statute stipulates that appropriations provided to the educational institutions or the state board of education

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for the tuition for eligible students is to be made to the Michigan Veterans' Trust Fund board of trustees.

House Bill 5640 would require, until January 1, 2006, that the appropriation be made instead to the Veterans' Dependents' Education Fund that would be created under the bill within the state treasury. The bill would permit the state treasurer to receive money or other assets from any source for deposit into the fund. The state treasurer would direct the investment of the fund and would credit interest and earnings from the fund investments to the fund. Money remaining in the fund at the end of the fiscal year would remain in the fund and not lapse to the general fund. The Michigan Veterans' Trust Fund board of trustees would, upon appropriation, administer the money in the fund to cover the tuition costs of the eligible students. The provision establishing the Veterans' Dependents' Education Fund would be repealed on January 1, 2006.

MCL 35.112

BACKGROUND INFORMATION:

Public Act 4 of 1943 created a post-war reserve fund of \$50 million "for the purpose of liquidating Michigan's obligations, after the termination of the war, to its returning service men, their widows, or dependents." Public Act 4 authorized the State Administrative Board to transfer immediately \$20 million from the general fund to the reserve fund, and directed the board and the state treasurer to transfer from the general fund to the reserve fund "accruing surplus revenues as promptly as accruing unappropriated revenues shall warrant, until the additional transfers shall bring the post-war reserve fund up to the total of" \$50 million. The post-war reserve fund was subsequently transferred to the Michigan Veterans' Trust Fund when it was created by Public Act 9 of 1946. Public Act 9 specified that \$50 million of the transferred funds was to remain in the MVTF as a trust, and \$200,000 of the MVTF was to be transferred to an emergency loan fund to be used for veterans or their legal dependents "who may be engaged upon a course of instruction under any state or federal educational program." According to the act, income accruing in the MVTF in excess of the \$50 million and the \$200,000 is to be used by the MVTF trustees to provide for the needs of Michigan veterans and their wives and dependents.

The MVTF trustees also are responsible for administering the tuition grant program. The tuition grant program was established by Public Act 245 of 1935 and was originally administered by the Department of Education. The program was transferred to the auspices of the MVTF trustees in 1966. Public

Act 245 specifies that a child of a disabled or deceased veteran, or of a veteran who is missing in action, must be admitted to and may attend a state tax-supported educational or training institution of a secondary or college grade, and exempts the child from tuition and tuition-type fee requirements. The MVTF trustees are responsible for determining the eligibility of the applicant for this benefit and for determining the accuracy of the charges submitted to the trustees by the institutions on account of the applicant's attendance at the institution. According to Public Act 245, the appropriations provided to the institutions or to the Department of Education are to be provided to the MVTF board of trustees to reimburse the fund for the tuition grants. However, the state has only made such a transfer of money to the MVTF for that specific purpose twice, and has not done so at all since 1969.

According to the Department of Management and Budget, the Michigan Veterans' Trust Fund has been liquidated twice. The first time, pursuant to Public Act 277 of 1959, was to meet the cash requirements of the general fund, as specified in Public Act 277. Although Public Act 277 called for complete restoration of the MVTF by July 1971, subsequent amendments to the Michigan Veterans' Trust Fund law provided for additional grants or loans from the MVTF, extended the repayment period, and in Public Act 119 of 1976, again liquidated the fund. Public Act 119, however, also called for restoring the MVTF to the principal sum of \$49 million by July 1993. This did not occur officially until July 13 of 1994 when Public Act 288, which among other things required the transfer of just over \$11.5 million from the general fund into the MVTF, was signed into law.

By executive order, the MVTF and its tuition grant program were transferred to the Department of Military Affairs in October of 1995.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the establishment of the Veterans' Dependents' Education Fund would have no fiscal impact on state or local governments as the legislation would create a fund but not establish a funding mechanism. (5-3-96)

ARGUMENTS:

For:

From the information provided by the Senate Fiscal Agency, it can be clearly seen that the Michigan Veterans Trust Fund (MVTF) cannot continue to support the tuition needs of eligible dependents and still

meet the needs of those veterans requiring emergency assistance. The establishment of a separate fund for the tuition grant program would help in several ways. First of all, the MVTF is a trust fund with a principal reserve of \$50 million. Therefore, the only available money to fund the tuition and emergency grant programs is what can be generated in terms of interest earnings. By contrast, the Veteran' Dependents' Education Fund would be able to pursue various funding options such as corporate donations, fund raising activities, bequeaths, and so forth. Provisions in the bill would allow the state treasurer to invest the fund's money, and so could generate additional revenue. Further, unused money in the fund would be protected from lapsing to the general fund at the end of a fiscal year. According to testimony presented at the committee hearing, should the Veterans' Dependents' Education Fund lack sufficient revenue to cover tuition payments in a fiscal year, the MVTF would be responsible to make up the revenue shortfall of the fund before dispensing funds for the emergency grant program because the tuition grant program is an entitlement program. Therefore, there may still be some sharing of the interest revenue of the MVTF between the tuition and emergency grant programs from time to time. However, the bill would remain an important first step in allowing the MVTF board to seek other revenue sources for the Tuition Grant Program so that the MVTF could continue to meet the needs of the veterans and their dependents alike.

POSITIONS:

The American Legion supports the bill. (5-2-96)

The Polish League of American Veterans supports the bill. (5-2-96)

■ 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.