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Federal Education Update, March 2005

This update presents some of the major issues affecting higher education occurring at the national level. At the Commission meeting, staff will also provide an oral update on any late-breaking events. The report also presents for the Commission recommendations on federal proposals.

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The Commission advises the Governor and Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the state's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

President's FY 2006 Budget Proposal for Higher Education Programs

On February 7, President Bush released his proposed budget for the 2006 Federal Fiscal Year that begins October 1, 2005. The \$2.7 trillion budget outlined the President's priorities for the next fiscal year by awarding significant increases to military and foreign aid programs, while squeezing domestic programs such as education, health care, agriculture and housing. The Administration claims that this budget will take a sizable bite out of the nation's record deficit by holding non-security discretionary spending flat for the next five years. However, critics claim that this is just a "smoke and mirrors" budgetary trick because the costs of the wars in Iraq and Afghanistan were not included in the overall numbers for FY06, but instead are being put off to a special "supplemental" appropriations bill which Congress will take up later this year. Additionally, the President's proposal was mute on the transition costs associated with his plans to restructure Social Security. An analysis of the proposal by the American Council on Education called the President's budget a "mixed blessing" for higher education.

- Forty-eight education department programs are proposed for elimination, including the Perkins Loan Fund, the Leveraging Educational Assistance Partnerships (LEAP) program, and college preparation programs for low-income students such as Upward Bound, Talent Search, TRIO, and GEAR UP.
- The administration has proposed boosting student aid funding by \$28 billion over 10 years, adding some \$19 billion to the Pell Grant program. The Pell Grant maximum grant would increase \$100 per year over the next five years, rising from \$4,050 in 2005 to \$4,550 in 2010.

- An additional \$4.3 billion would be spent on the Pell Grant program to erase a deficit fueled by surging demand in recent years. The proposal also would make yearly increases mandatory rather than leave them to the discretion of Congress.
- Limits on the size of Stafford Student Loans would rise to \$3,500 from \$2,625 for freshmen and to \$4,500 from \$3,500 for sophomores. The last increase in the student loan caps came in 1986.
- Funds to pay for the changes would come from elimination of the Perkins Loan Program and a number of technical changes to the student loan program, including eliminating subsidies paid to banks and other lenders, imposition of loan origination fees, and a reduction in the risk subsidy paid to lenders.

In a joint statement from the Washington, DC based higher education associations, their leaders applauded the administration's student aid proposals: "These bold and comprehensive proposals will help low- and middle-income families finance higher education. We are heartened that the president has made increased Pell Grants and enhanced student loans such a prominent part of his FY 2006 budget and look forward to working with the administration and Congress as this initiative moves through the legislative process. At the same time, we are disappointed with other proposals in the president's budget that would eliminate long-standing, successful programs that have done a great deal to help students and families."

Established in 1958 as the National Defense Student Loans, the Perkins Loan Program is a low-interest, campus-based loan program that assisted more than 673,000 students in 2004 and has helped millions of Americans pay for college since its inception. The program operates as a revolving loan fund comprised of capital contributions from campuses and the federal government. New loans are generated using repayment funds and additional capital contributions. The administration proposal calls for ending the program and recalling the loan funds held by participating institutions. Campuses would be required to refund Perkins funds over ten years as students repay outstanding loans.

Sally Stroup, assistant secretary for postsecondary education, told *The Chronicle of Higher Education* that the Perkins Loan was targeted because of its limited reach -- it serves only three percent of students and 1,800 institutions -- and because of its "ineffective" ratings in recent budget analyses.

Ending the LEAP program, designed to stimulate the establishment of state-sponsored need-based student grant programs, would save the federal government \$65.6 million. The administration believes the program has met its objective: "State matching funds in the academic year 1999-2000, for example, totaled nearly \$1 billion or more than \$950 million over the level generated by a dollar-for-dollar match." Federal LEAP funds presently help support California's Cal Grant program.

Terminating the \$1.19 billion Perkins Vocational and Technical Education Program would dramatically weaken the quality of career and technical education programs at community colleges.

The Bush budget proposal increases spending for the National Institutes of Health by 0.7 percent to \$28.85 billion. The number of competitively awarded research grants in the 2006 fiscal year would increase only slightly from 9,216 in 2005 to 9,463 in 2006. No inflationary increases for continuing research grants would be permitted and the number of research fellowships would decline slightly.

Most other higher education programs received virtually the same level of funding in 2006 as in 2005, including the Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study, Strengthening Historically Black Colleges and Universities, Developing Hispanic Serving Institutions, Javits Fellowships and Graduate Assistance in Areas of National Need (GAANN) programs.

Funding for the National Science Foundation budget also would increase by 2.4 percent to \$5.61 billion, with the largest increase targeted for research, up \$113 million to \$4.33 billion. At the same time, funding for the Education and Human Resources Directorate, a major source of science scholarships and research grants for universities, would decline by 12 percent, or \$104 million. Among the cuts are \$19.4 million for the Math and Science Partnership program and \$18.7 million in undergraduate-education programs and scholarships. Funding for graduate-education traineeships and fellowships and the Experimental Program to Stimulate Competitive Research would increase to \$155 million and \$94 million, respectively.

The Bush administration also used the budget plan to outline many of its proposals for reauthorizing the Higher Education Act. The Administration proposes the following changes in the reauthorization of the Higher Education Act:

- Proposes spending \$50 million on a new Presidential Math and Science Scholars Program, which would operate as a public/private partnership to award \$100 million annually in grants of up to \$5,000 to low-income math and science students.
- Calls for a substantial increase in the amount of work-study funds used for community service, boosting the annual total from 7 percent to 20 percent.
- Proposes revising the Pell Grant Program to index the minimum award to permit it to rise at the same rate as the maximum award, permit year round eligibility at two- and four-year institutions, limit eligibility to the equivalent of 16 semesters to foster timely degree completion and eliminate the Pell Grant award rule related to tuition sensitivity. Aside from the proposed change to limit the duration of Pell Grant eligibility, California's higher education community views the remaining proposed Pell revisions favorably.
- Calls for eliminating two key provisions restricting institutional eligibility for federal student aid programs: the 50 percent rule and the 90/10 rule. The 50 percent rule requires that half of a program's courses be offered on campus, restricting distance education. The 90/10 rule requires that at least 10 percent of school's revenue come from non-federal sources.
- Establishes a new High School Intervention initiative in place of the TRIO programs in an effort to provide "more flexible, comprehensive, and accountable approaches to addressing the college preparation needs of high school students." The administration's budget proposal now moves to the House and Senate Appropriations committees for review.

Over the 10-year federal budget window, the Administration's reauthorization proposals will generate about \$34 billion in savings from the federal student loan programs. The bulk of these savings (\$27 billion) would be used to increase the Pell Grant maximum award, pay off the current \$4 billion Pell Grant shortfall, and improve loan benefits to students in school by increasing loan limits for first and second year students and extending the current variable interest rate framework for Stafford loans. The difference between the \$34 billion in savings and the cost of the Administration's program improvements (\$27 billion) is \$7 billion. It appears as if up to \$7 billion in savings could be used to reduce the magnitude of the cuts proposed in the budget or to be used to reduce the federal budget deficit. The \$34 billion in savings are achieved by:

- Cutting subsidies and payments to lenders, state guaranty agencies, and loan consolidators;
- Allowing borrowers to reconsolidate on multiple occasions by charging them a 1% origination fee on loan reconsolidations;

- Replacing the current fixed-rate interest rate formula used for consolidation loans with a variable rate;
- Placing a larger share of the loan risks on lenders;
- Eliminating the Perkins Loan program and requiring institutions to return the Perkins loan revolving funds to the federal government over 10 years; and
- Miscellaneous other student loan reforms.

Many aspects of the Bush budget have already met considerable, and bipartisan, resistance on the Hill. For example, House Education and Workforce Committee Chair John Boehner (R-OH) indicated deep skepticism in a recent speech about Congressional willingness to go along with eliminating the Perkins, Upward Bound and GEAR UP programs. While voicing support for the Pell increases, Boehner also spoke against cutting lender subsidies to fund them, arguing such cuts would destabilize the programs.

House Republicans Introduce Comprehensive Higher Education Act (HEA) Reauthorization Bill

On February 2, the Chairman of the House Committee on Education and the Workforce, Representative John Boehner (R-OH) and the Chairman of the House Subcommittee on 21st Century Competitiveness, Representative Howard P. “Buck” McKeon (R-CA), introduced comprehensive legislation to reauthorize the Higher Education Act (HEA). HR 507, the College Access and Opportunity Act, combines provisions from several Republican bills introduced in the 108th Congress in the areas of: (1) Teacher Preparation and Retention, (2) Access, (3) Affordability, (4) Accountability and Student Financial Assistance Programs, (5) International Education Programs, and (6) Graduate Education Programs. Provisions include:

- Increases to Pell Grant awards for low-income students who have completed a rigorous high school curriculum;
- Year-round Pell Grants for summer study at some institutions of higher education;
- Simplified financial aid application process for very low-income students;
- A phase-out of unfair distribution rules in the campus-based student aid programs;
- Retention and expansion of the TRIO and GEAR UP programs;
- Simplification of eligibility rules for HSI grants;
- A reduction in student loan origination fees;
- Increased student loan limits for first and second year students;
- Elimination of excess subsidies paid by the federal government to some lenders for loans financed by certain tax-exempt bonds;
- A waiver of delayed student loan disbursement rules for institutions with low student loan default rates;
- Preservation of both the direct and guaranteed student loan programs;
- New reporting requirements for schools that increase tuition by more than twice the rate of inflation for three consecutive years;

- Requiring institutions to have transparent transfer of credit policies, and to report on credits transferred from other institutions; and
- Increased student loan forgiveness for math, science, and special education teachers serving in low-income school districts.

Controversial provisions, which impeded bill passage last year, are also contained in the legislation. These include:

- A continuation of the current variable interest rates on student loans after 2006;
- Changing the interest rate structure on consolidation loans from a fixed rate to a variable rate;
- A repeal of the rule that requires for-profit institutions from receiving no more than 90 percent of their revenues from federal sources; and
- Allowing for-profit institutions to participate in certain higher education programs for which they are not currently eligible.

Meanwhile, Senator Mike Enzi (R-WY), Chairman of the Senate Health, Education, Labor, and Pensions, (HELP) Committee, has indicated that HEA reauthorization is one of his top three priorities for this year. However, he also noted that it would likely be one of the most contentious pieces of legislation that his committee will consider.

Other Higher Education Legislation

A number of other bills related to higher education have also been introduced. HR 133, by Representative Ric Keller (R-FL), would increase the maximum Pell Grant award; Representative Joe Wilson (R-SC) would make permanent recent increases in loan forgiveness for math, science, and special education teachers serving in low-income schools (HR 367); and Senator Sue Collins (R-ME) has introduced S Res 8, expressing the intent of the Senate that the maximum Pell Grant award be increased. On the Democratic side, Representative Rush Holt (D-NJ) and Senator Jon Corzine (D-NJ) introduced HR 114 and S 187 respectively, which would prevent recent changes to the tax tables used to determine eligibility for federal student aid programs from negatively affecting students. Representative Holt has also introduced HR 115, to expand and improve foreign language study, and HR 117, to provide tax deductions for higher education expenses. Representative Dale Kildee (D-MI) has introduced HR 367, which would reduce certain subsidies to lenders in the Federal Family Education Loan (FFEL) program, and Senator Dianne Feinstein (D-CA) has introduced S 117, to extend student loan forgiveness to Head Start teachers serving in low-income schools. Finally, Senator Jeff Bingaman (D-NM) has introduced S 15, which would make several changes to the Higher Education Act as well as to the No Child Left Behind Act (NCLB) and to Head Start programs.

Pell Grant Changes Implemented, Democrats Counter With Legislative Proposal

On January 4, 2005, Representative Rush Holt (D-NJ), joined by Representative Tim Bishop (D-NY), Representative George Miller (D-CA), and 17 other Democratic House members introduced HR 114, legislation to overturn recent Department of Education revisions to the tax tables used to determine eligibility for federal student financial assistance programs, including the Pell Grant program. As the Commission may recall from discussion at its December meeting, under the Higher Education Act (HEA) the Department is required to update this data on a yearly basis. However, this year's revision

marks the first time that this information has been updated since 1994. It is estimated that as many as 1.3 million students nationally may see their federal financial aid packages reduced as a result of the changes, and many in the higher education community question whether the changes accurately reflect taxes paid, and therefore money available, to students and their parents to pay for college.

The Commission adopted a resolution at its December meeting expressing such concerns, and requested that revisions be postponed until the reliability of the data could be verified, or until more accurate data became available. While HR 114 is unlikely to see action as a standalone bill, its introduction shows that this issue is a priority for Democratic House members, and that it is likely to be discussed in conjunction with reauthorization of the HEA.

GAO Criticizes Education Department Approach for Updating Aid Eligibility

On the heels of the controversial move by the Education Department to revise the tax tables used to determine student eligibility for federal financial aid, the Government Accountability Office (GAO) -- Congress' investigative arm -- said the Department could do a better job in obtaining the information it needs to make updates. The GAO concluded that:

The dataset [used by the Department for updating the tax tables] itself is not ideally suited for calculating the allowance because it is limited to financial data from those who itemize their taxes, does not include state and local sales taxes, and is several years older than the income information reported by students and families on the FAFSA. SOI tax information may not be representative of families applying for financial aid because SOI compiles state and local tax data only for those who itemize their deductions, and itemizers may pay different effective tax rates for a given level of income than nonitemizers. Also, while state and local sales taxes were reflected in SOI data when Congress first incorporated the tax allowance, subsequent tax reform legislation eliminated the deductibility of sales taxes, effectively removing this information from the SOI dataset. Although more recent legislation provides taxpayers who itemize the choice of deducting either sales or income taxes, the law allows this only for the 2004 and 2005 tax years. Moreover, SOI tax data are generally released about 2 years after each tax year, so it is not possible to match this information with the income information that applicants report on the aid application. In addition to the limitations of the SOI dataset, Education's calculation of the allowance does not accurately consider the varying taxes paid by different income groups. As a result, Education's calculation of the allowance is overestimated for lower-income groups and underestimated for higher-income groups.

Job Training Measure Clears House Committee

On February 17, by a vote of 26-20, the House Committee on Education and the Workforce passed HR 27, the Job Training Improvement Act, which would reauthorize the Workforce Investment Act of 1998. The bill would combine job training funds for adults, dislocated workers, and employment services into a single state block grant, give governors more discretion in spending job training funds, and increase the number of personal reemployment account pilot projects. Controversial provisions in the bill, include language to allow religiously-affiliated job training providers to choose to employ members of their respective faiths, and language giving governors more discretion in apportioning the contributions paid by various partners to fund one-stop career centers.

In addition, the bill would set aside \$250 million to fund President Bush's proposal to award grants to two-year institutions to work with businesses and local work-force-investment boards to provide job training in high-growth, high-skill fields with labor shortages. Representatives of four-year state colleges and universities have expressed interest in participating in the initiative, but as yet, no amendment has been offered to allow them to do so. The full House may consider HR 27 as early as the first week in March. The Senate was expected to begin consideration of similar legislation shortly after the President's Day recess.

House Reorganizes Appropriations Subcommittees

The House Appropriations Committee has moved forward with a dramatic restructuring. On February 9, House Appropriations Committee Chair Jerry Lewis (R-Redlands) announced that its traditional thirteen subcommittees have been reduced to ten, with elimination of the Legislative Branch, District of Columbia, and Veteran's Affairs/HUD/Independent Agencies subcommittees.

While discussions have been held regarding setting up matching committees in both chambers, the Senate, as of this date, has decided to stick with the same thirteen panels it has utilized in the past, though changes may occur in the future. If the mismatch persists, it will make an omnibus bill inevitable for much of the budget, undercutting one of the primary stated purposes of the House reorganization.

Spellings Sworn In As Education Secretary, Sally Stroup to Remain as the Assistant Secretary for Postsecondary Education

On January 31, President Bush's former domestic policy advisor, Margaret Spellings, was sworn in as the eighth Secretary of Education. Meanwhile, Sally L. Stroup, the Department's Assistant Secretary for Postsecondary Education, said she would remain in that post under Spellings.

Secretary Spellings Discusses Her Views on Higher Education

New U.S. Secretary of Education Margaret Spellings gave some clues to the Administration's perspective on higher education issues in a recent interview with the *Chronicle of Higher Education*, the first she has given since being confirmed. Secretary Spellings emphasized the need for individual institutions to communicate to parents, potential students, and policymakers regarding what to realistically expect in terms of graduation timelines, costs of attendance, and the culture of their particular institution; she said her Department could contribute more to this "navigation" process. However, the Secretary indicated it is unlikely that the federal government will get involved in imposing accountability measures on institutions in these areas, or in enacting restrictions like tuition price controls. She also reiterated the President's support for community colleges.

Governor Schwarzenegger's Visit to Capitol Hill

Governor Arnold Schwarzenegger and other state legislative leaders visited Capitol Hill on February 17. His itinerary included a bipartisan meeting with more than forty members of California's Congressional delegation. While media attention in D.C. focused on tensions related to the Governor's controversial redistricting proposal, the California Institute for Federal Policy Research reports that the group discussed ways to increase California's share of federal resources in areas including health care, incarceration of undocumented felons, transportation, and homeland security, along with base closure and reuse.

Recommendations

Staff recommends the Commission adopt the following positions on federal education matters:

1. *The Commission supports the President's budget proposal to increase the maximum Pell Grant award by \$100 per year over the next five years, raising it from \$4,050 in 2005 to \$4,550 in 2010. However, the Commission is concerned about a number of the programmatic changes proposed in order to fund this proposed increase in Pell Grant funding.*
2. *Specifically, the Commission opposes the President's proposal to eliminate the following federal education programs: Perkins Loan Fund, Leveraging Educational Assistance Partnerships (LEAP), Perkins Vocational and Technical Education Grants, Upward Bound, Talent Search, and GEAR UP programs.*
3. *Further, the Commission supports the President's Higher Education Act reauthorization proposal that would revise the Pell Grant Program to eliminate tuition sensitivity rule and would permit year-round Pell Grant eligibility at two- and four-year institutions. The Commission also supports the President's proposal to create a new \$50 million Presidential Math and Science Scholars Program, which would operate as a public/private partnership to award \$100 million annually in grants of up to \$5,000 each to low-income math and science students.*
4. *However, the Commission opposes the President's proposal to limit Pell Grant eligibility to the equivalent of 16 semesters as this would likely impact the ability of needy students to access and complete a college education.*

If the Commission adopts these recommendations, staff will advocate them on the Commission's behalf.