

Action/Information Item

Governance and Monitoring Committee

**Update on President Obama's Fiscal Year 2010 Budget and
Consideration of Positions on Items Affecting Student Financial Aid**

On February 26, the President released his fiscal year 2010 Budget Proposal (Budget).

The Budget would invest \$46.7 billion in the Department of Education to build on The American Recovery and Reinvestment Act of 2009 (ARRA), the federal economic stimulus package which became law on February 17, 2009. The Budget would make substantial changes to the federal student aid programs and make permanent the American Opportunity Tax Credit, previously authorized for 2009 and 2010 by the ARRA.

The Obama Administration (Administration) plans to release additional budget details sometime this spring. Provided here are the Budget highlights that aim to help students access and complete college. The Budget would:

- Increase the maximum Pell Grant awards. The Budget builds on ARRA by supporting a \$5,550 Pell Grant maximum award in the 2010- 2011 school year and ties future increases in Pell Grant amounts to the Consumer Price Index plus 1 percent. Currently, the maximum Pell Grant amount is based on Congressional appropriation for Pell Grants and is usually lower than the maximum award allowed by the Higher Education Act of 1965. The maximum award appropriated for fiscal year 2008-09 is \$4,731. The ARRA increased the maximum award to \$5,350 for fiscal year 2009-10 and \$5,550 for fiscal year 2010-11.
- Transform Pell Grants into an entitlement. The Administration proposes to make the Pell Grant program a mandatory Budget expenditure.
- Change student loan programs. The Budget proposes to end the Family Federal Education Loan Program (FFEL Program) and to originate all new student loans beginning July 2010 through the existing William D. Ford Federal Direct Loan Program. The Administration would use private-sector companies to service and collect the loans. The Administration has indicated that the expected savings of more than \$4 billion per year from eliminating the FFEL Program will be used in the Pell Grant program to provide more grant aid to students.
- Expand the campus-based Perkins Loan program. The Budget proposes this expansion to provide a better alternative to high-cost private loans. Perkins Loans are offered by participating institutions to the students who have demonstrated the greatest financial need. The Administration anticipates its proposal to achieve an increase in the number of institutions offering Perkins Loans from 1,800 to 4,400; an increase in the number of

students receiving Perkins Loans from 500,000 to potentially 2.7 million; and the development of a formula for distributing the new Perkins Loan funds to reward institutions for providing more need-based aid and having reasonable tuition charges relative to comparable institutions.

- Simplify the Free Application for Federal Student Aid (FAFSA). The Administration seeks to simplify the application process by streamlining the required financial and student data and reducing the number of pages, to make it easier for families and students to apply for student financial aid.
- Extend the tax credit to help save for college. The Budget makes permanent the new \$2,500 American Opportunity Tax Credit provided in ARRA. The ARRA boosted the tuition tax credit from a maximum of \$1800 to \$2500 for families earning up to \$80,000 (\$160,000 in the case of a joint return). ARRA replaces the Hope credit with the American Opportunity Tax Credit, which is larger and available to more students.
- Focus on College Completion. The Budget includes a new five-year, \$2.5-billion Access and Completion Incentive Fund to support innovative state efforts to help low-income students succeed and complete their college education. The program would include a rigorous evaluation component to determine best practices and accountability. The Budget would also allow states to use a part of their funding to continue college outreach and information activities currently funded from subsidies in the FFEL Program.

The following items are included:

Tab 1.b – President’s Budget Proposal for Department of Education

Tab 1.c – Fact Sheet on President’s Budget Proposal prepared by the Office of Management and Budget

Tab 1.d – Prepared Opening Statement of Secretary of Education Arne Duncan before the House Budget Committee

Responsible Persons: Ed Emerson, Chief
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DEPARTMENT OF EDUCATION

Funding Highlights:

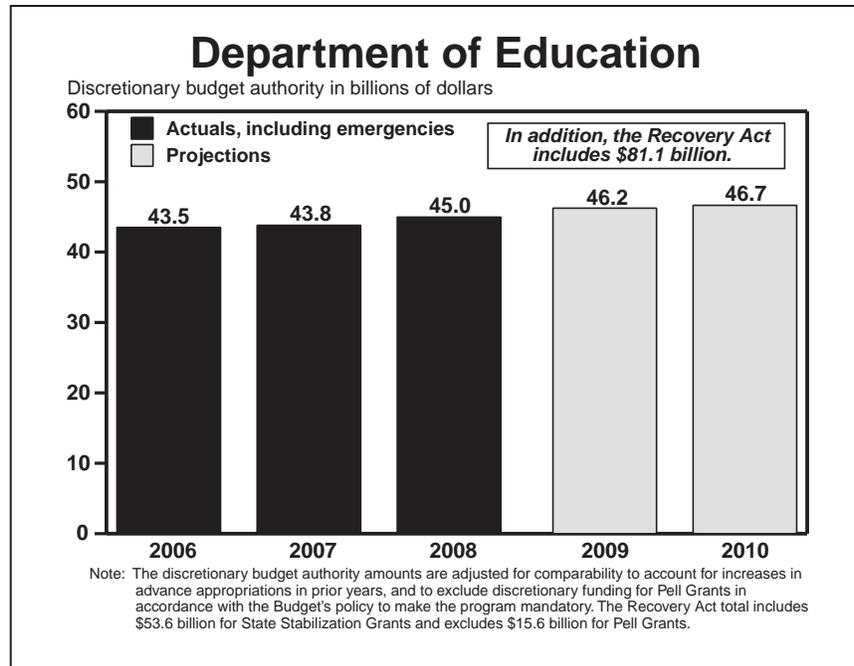
- Creates incentives and supports for States to build comprehensive, coordinated, high-quality early childhood “Zero to Five” systems, building on the early childhood investments in the American Recovery and Reinvestment Act of 2009.
- Strengthens and reforms public schools to meet the needs of all students, by helping States to develop high quality, rigorous standards and assessments, vigorously supporting and rewarding effective teaching, and investing in and widely disseminating effective approaches to improving student achievement to help all students make progress toward high standards.
- Expands opportunities for students to go to college and graduate by expanding student aid, shifting resources from banks and middlemen toward students, creating new incentives for colleges to focus on student completion, and expanding access to low-cost Federal student loans.

Expands Access to High-Quality Early Childhood Education. Decades of rigorous research demonstrates that high-quality early childhood education programs help children succeed in school and throughout their lives. Building on strong investments in the Recovery Act, the President’s Budget also includes new initiatives aimed at ensuring that early childhood programs yield strong results for children. The Budget invests additional resources to encourage State and local investment in early childhood education; support coordination among local, State, and Federal partners and a seamless delivery of services; and provide better information to parents about program options and quality.

Supports High Standards and Rigorous Assessments Aligned with the Demands of the Global Economy. Students must achieve to high standards in order to be successful in the global economy. Assessments must accu-

rately measure students’ knowledge and skills, including critical thinking skills. Building on the Recovery Act, the new Administration will help States increase the rigor of their standards so they prepare students for success in college and a career. Resources will also be available to improve the quality of assessments, including assessments for students with disabilities and English language learners. Such reforms will lay the groundwork for reauthorizing the Elementary and Secondary Education Act.

Prepares and Rewards Effective Teachers and Principals. The Budget builds on the investments funded under the Recovery Act designed to significantly upgrade the skills and effectiveness of the education workforce. The Administration will invest in efforts to strengthen and increase transparency around results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs,



and teacher and principal residency programs. The Budget supports additional investments in State and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not improve, exit the classroom. Resources are also included to develop better systems and strategies for recruiting, evaluating, and supporting teachers and other educators to provide a better supply and distribution of well-prepared and effective education workforce.

Supports Innovative and Effective Strategies to Improve Achievement. Through the Innovation Fund, the Administration will invest in school systems and non-profit organizations with demonstrated track records of success in raising student achievement to expand their work or implement new innovative approaches. The President's Budget also provides funds to support Promise Neighborhoods, a new effort to test innovative strategies to improve academic achievement and life outcomes in high-poverty areas. The program will be modeled after the Harlem Children's Zone, which aims to improve college-going rates by combining a rigorous K-12 education with a full network of support-

ive services—from early childhood education to after-school activities to college counseling—in an entire neighborhood from birth to college.

Funds Education Research to Ensure that Teachers and School Leaders Have the Tools and Information They Need to Prepare Students for the Global Economy. The Budget includes funds to carefully study, improve, and scale up promising educational innovations that focus on improving student learning and achievement. The additional funds will also be used to rigorously evaluate Federal education programs so that Federal investments are preparing students for success in college and the workforce.

Promotes Successful Models for Turning Around Low-Achieving Schools. The Budget builds on the Recovery Act's focus on strategic investments in scaling up educational practices that show results and cultivating promising new practices. The President's Budget commits resources to turn around high-need, low-performing schools with strong supports, not just sanctions. The Administration's new strategy will support State efforts to diagnose and address the root causes of schools' low performance. In addition, the Budget increases funding for the

Charter School program to support the expansion of successful charter school models, while increasing State oversight to monitor and shut down low-performing charter schools.

Expands Pell Grants and Puts the Program on Sure Footing. Because the Administration is committed to making college affordable for all Americans, the 2010 Budget builds on the Recovery Act by supporting a \$5,550 Pell Grant maximum award in the 2010-2011 school year. But it is not enough just to make Pell Grants more generous and to put on a short-term patch. Fourteen times since 1973, the maximum Pell Grant has failed to increase even in nominal dollars. To make sure that we have a highly-educated workforce and that the opportunity to go to college is not determined by how much money you have, we need to put the Pell Grant program on sure footing. The Administration will index Pell grants to the Consumer Price Index plus 1 percent in order to address inflation. In addition, the Administration proposes to make the Pell Grant program mandatory to ensure a regular stream of funding and eliminate the practice of “backfilling” billions of dollars in Pell shortfalls each year. Finally, while expanding student aid, the Administration will also simplify the student aid application process.

Stabilizes the Student Loan Program for Students and Saves Billions of Dollars for Taxpayers. Right now, the subsidies in the Government-guaranteed student loan

program are set by the Congress through the political process. That program has not only needlessly cost taxpayers billions of dollars, but has also subjected students to uncertainty because of turmoil in the financial markets. The President’s Budget asks the Congress to end the entitlements for financial institutions that lend to students. The Administration will instead take advantage of low-cost and stable sources of capital so students are ensured access to loans, while providing high-quality services for students by using competitive, private providers to service loans. The approach in the Budget, originating all new loans in the direct lending program, saves more than \$4 billion a year that is reinvested in aid to students. The Budget also makes campus-based, low-interest loans more widely available through a new modernized Perkins Loan program, overhauling the inefficient and inequitable current Perkins program.

Focuses on College Completion. It is not enough for the Nation to enroll more students in college; we also need to graduate more students from college. A few States and institutions have begun to experiment with these approaches, but there is much more they can do. The Budget includes a new five-year, \$2.5 billion Access and Completion Incentive Fund to support innovative State efforts to help low-income students succeed and complete their college education. The program will include a rigorous evaluation component to ensure that we learn from what works.

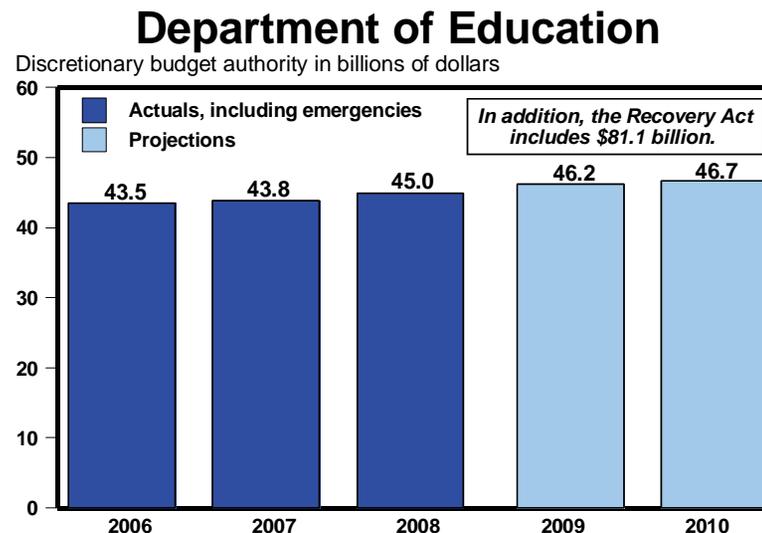
A NEW ERA OF RESPONSIBILITY: RENEWING AMERICA'S PROMISE

The U.S. Department of Education 2010 Budget

“The path to jobs and growth begins in America’s classrooms. The decisions we make about how to educate our children will shape our future for generations to come. They will determine not just whether our children have the chance to fulfill their God-given potential, or whether our workers have the chance to build a better life for their families, but whether we, as a nation, will remain in the 21st Century, the kind of global economic leader that we were in the twentieth. If we want to out-compete the world tomorrow, we must out-educate the world today.”

-- President Barack Obama

With a Fiscal Year 2010 Budget of \$46.7 billion for the Department of Education, the President is committed to educational excellence at all levels. Building on investments in the Recovery Act to bolster early childhood education, this Budget supports states’ “Zero to Five” systems. To strengthen and reform public schools and meet the needs of all students, the Administration will utilize programs funded by the Recovery Act and new Budget initiatives to work with states to develop rigorous standards and assessments, support and reward effective teaching, invest in best practices, and improve student achievement. Expanding opportunities for higher education is another priority of this Budget, which modernizes Federal student loans, builds on an increase in Pell awards that was included in the Recovery Act, and makes the new \$2,500 American Opportunity Tax Credit permanent. The Budget includes a new five-year, \$2.5 billion Access and Completion Incentive Fund to support innovative state efforts to help low-income students complete college.



Note: The discretionary budget authority amounts are adjusted for comparability to account for increases in advance appropriations in prior years, and to exclude discretionary funding for Pell Grants in accordance with the Budget's policy to make the program mandatory. The Recovery Act total includes \$53.6 billion for State Stabilization Grants and excludes \$15.6 billion for Pell Grants.

Information prepared by the White House Office of Management and Budget
 Peter R. Orszag, Director
www.whitehouse.gov/omb

The U.S. Department of Education Budget Highlights

COMPREHENSIVE EARLY CHILDHOOD EDUCATION

Expands access to high-quality early childhood education. The Administration is proposing to help states strengthen their early education programs. The Administration will broaden the reach of these programs and boost their quality, encouraging new investment, a seamless delivery of services, and better information for parents about program options and quality. In addition, through funds from the recovery act and this budget, the President will double funding for the Early Head Start program and expand Head Start, both of which have proven to be successful with younger children. Finally, the Department of Health and Human Services will begin a major new effort to ramp up the Nurse-Home Visitation program. Rigorous research has shown that a well-structured program can have large and measurable impacts in helping at-risk expectant and new parents give their children a healthy start in life.

INNOVATIVE AND PROVEN SOLUTIONS

Supports innovative and effective strategies to improve achievement. The Budget invests in school systems and non-profit organizations with demonstrated track records of success in raising student achievement to expand their work or implement new innovative approaches through the “Innovation Fund.” Funds provided support “Promise Neighborhoods,” a new effort to test innovative strategies to improve academic achievement and life outcomes in high-poverty areas modeled after the Harlem Children’s Zone.

Funds education research. The Administration supports funding to ensure that teachers and school leaders have the tools and information they need to prepare students for the global economy. This includes funds to carefully study, improve, and scale up promising educational innovations that focus on improving student learning and achievement. Additional funds will also be used to rigorously evaluate federal education programs.

Promotes successful models for turning around low-achieving schools. The Budget scales up educational practices that show results, and cultivates promising new practices by committing resources to turn around high-need, low-performing schools with resources, not just sanctions. It supports state efforts to diagnose and address the root causes of schools’ low-performance, and increases funding for the Charter School program.

TEACHER AND PRINCIPAL EFFECTIVENESS

Prepares and rewards effective teachers and principals. The Budget invests in efforts to strengthen and increase transparency around results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs, and teacher and principal residency programs. The Budget supports additional investments in state and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not, exit the classroom.

COLLEGE ACCESS AND COMPLETION

Increases maximum Pell Awards. The Budget builds on the Recovery Act by supporting a \$5,550 Pell Grant maximum award in the 2010-2011 school year. Shifts the Pell program to the mandatory side of the Budget and ties future increases in Pell awards to the Consumer Price Index plus 1-percent. Also makes permanent the new \$2,500 American Opportunity Tax Credit provided in the Recovery Act.

Modernizes Federal Student Loans. The Budget provides funds to modernize the federally subsidized student loan programs to guarantee student access to loans, protecting students from turmoil in the financial markets and ensuring high-quality services by competitive, private providers. Also it makes campus-based, low-interest loans more widely available through a new Perkins loan program, overhauling the inefficient and inequitable current Perkins program.

Focuses on college completion. The Administration supports \$2.5 billion for a new five-year Access and Completion Incentive Fund to support innovative state efforts to help low-income students succeed and complete their college education. The program will include a rigorous evaluation component to ensure that we learn from what works.

ED.gov

Secretary Arne Duncan Testifies Before the House Budget Committee on the Fiscal Year 2010 Budget Request

FOR RELEASE:
March 12, 2009

Speaker sometimes deviates from text.

Today, U.S. Secretary of Education Arne Duncan testified before the House Budget Committee on the Fiscal Year 2010 Budget Request for the U.S. Department of Education. Following is his prepared opening statement:

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to testify on behalf of President Obama's fiscal year 2010 budget for the Department of Education, and to talk with you about how we plan to invest in our economic future by providing the high-quality education our kids need to compete in the global economy.

President Obama is asking for \$46.7 billion in discretionary funding for the Department in fiscal year 2010, or roughly a \$500 million increase over the 2009 level, that would build on the historic increases provided for education in the American Recovery and Reinvestment Act (ARRA, or the Recovery Act). We will release the details of this request next month.

Today I want to share with you the priorities of the President's plan to strengthen and reform America's education system.

The President believes strongly that one key for both individual and national success in the global economy is a college education. This is why he has set a national goal of ensuring that America is number one in the percentage of citizens holding college degrees. Today roughly 40 percent of 25-34 year-old Americans hold college degrees, and we want to raise that to 60 percent.

To reach this goal we have to overcome two core problems: Too many young people are unprepared for college and too many others cannot afford it. The President's 2010 budget for education addresses both of these problems.

First, because the President believes that the road to college begins at birth, the 2010 request will provide additional resources to help States build high-quality "Zero to Five" early childhood programs. These resources, in the President's request for both the Department of Education and the Department of Health and Human Services, will leverage State and local investment in early childhood education, raise the bar on the quality of early education, support coordination at all levels of government to ensure

seamless delivery of services, and help give parents the information they need to choose a high-quality program that meets the needs of their children.

STRENGTHENING OUR PUBLIC SCHOOLS

The Department of Education request is focused on strengthening our public schools. We will help States develop and implement rigorous, college-ready academic achievement standards along with improved assessments, including assessments for students with disabilities and English language learners, to accurately measure students' knowledge and skills.

Another key focus of our 2010 request is improving the quality of the education workforce. The request will include proposals to bring greater accountability to teacher and principal preparation programs, to improve systems and strategies for recruiting, evaluating, and supporting teachers, and to provide incentives that will both reward effective teachers and encourage them to teach where they are most needed.

We also plan to work very hard at scaling up success in our education system. Under our 2010 budget, the Department would continue to use the Innovation Fund created by the Recovery Act to identify and replicate successful models and strategies that raise student achievement. We know that there are many school systems and non-profit organizations across the country with demonstrated track records of success in raising student achievement, and our 2010 request would help bring their success to scale. Our budget also would support comprehensive approaches such as Promise Neighborhoods, which would be modeled after the Harlem Children's Zone, that aim to improve college-going rates by combining a rigorous K-12 education with a full network of neighborhood-based social services. In addition, we want to partner with States to build their capacity to diagnose and address the root causes of low-performing schools.

HELPING MORE KIDS GO TO COLLEGE

All of these efforts—improved early childhood education, stronger standards and assessments, improved teaching, and scaling up successful models of high-quality teaching and learning—will help ensure that all of our children have the knowledge and skills they need for success in the workforce or further learning.

And to ensure that as many kids as possible are able to take that second option—to pursue further learning—our 2010 request includes four major proposals to expand opportunities for students to enter and complete a college education. These are in addition to our ongoing work simplifying the student aid application process to make it easier and less confusing to apply for Federal student financial assistance.

First, we want to create a stronger and more reliable Pell Grant program by moving the program to the mandatory side of the Federal budget. For the first time ever, Pell Grants will not be subject to the politics of the moment or the whims of the market—they will be a commitment that Congress is required to uphold each and every year. Further, because

rising costs mean Pell Grants cover less than half as much tuition as they did 30 years ago, we are raising the maximum Pell Grant to \$5,550 a year and indexing it above inflation.

Second, we are proposing to stabilize the postsecondary student loan programs and save taxpayers \$4 billion annually by originating all new loans in the direct lending program and tapping experienced private sector companies to collect and service the loans. It no longer makes any sense to heavily subsidize a guaranteed student loan program that is barely functioning in the current financial crisis when we have a stable, lower-cost method of meeting the needs of all eligible students.

Third, our request would significantly expand the Perkins Loan program to give students with extra borrowing needs a better alternative to high-cost private loan programs. Our proposal would expand the number of schools offering Perkins Loans from 1,800 to up to 4,400, and potentially more than quintuple the number of students receiving Perkins Loans, from 500,000 to 2.7 million, and better distribute student aid among schools. The loans would carry a 5 percent interest rate, with interest accruing during school, and would be handled by private sector servicers instead of colleges shouldering the responsibility for loan collection. Since the budget was announced, we have heard a lot of excitement about this expansion. Let me address a few of the questions we have been getting about our proposal:

- The loan limits would be the same as in the current Perkins program: \$4,000 per year for undergraduate students, \$6,000 per year for graduate and professional students. As with the current program, these loans would not count as part of the total Stafford loan limits.
- The financial aid office at the college would determine who would be offered loans. We envision greater flexibility for the college than in the current Perkins Loan program.
- Borrowers would have access to the same repayment and forgiveness programs as are available in the Stafford loan program.
- Our proposal would not affect borrowers who already have Perkins loans made under the pre-2010 program. As those borrowers repay their loans, the participating schools would remit the Federal share to the Department of Education.

While we are expanding financial aid, colleges and universities have a responsibility to control their own costs. Under the current distribution formula for Perkins Loans and other campus-based aid, the more that a college increases tuition, the more money the college stands to receive from the Federal Government. This sends precisely the wrong message to institutions. We look forward to working with Congress to develop a formula for distributing the new Perkins loan funds that would reward institutions for providing more need-based aid and having reasonable tuition charges relative to comparable institutions.

Finally, our 2010 request will launch a 5-year \$2.5 billion Access and Completion Incentive Fund that will support innovative State efforts to improve college completion rates for low-income students. This Federal-State partnership builds on ideas Congress included in the Higher Education Opportunity Act, such as the State Grants for Access and Persistence program designed to complement LEAP. A key goal of this program is to learn more about what works, and what doesn't work, in improving student persistence to degree. The Administration also intends to reach out to the philanthropic community as potential partners, and expects to make use of the Experimental Sites authority that we already have, to issue regulatory waivers for the purpose of research on programs to improve persistence. States would have considerable flexibility in the types of programs that can be funded, but they all must include a rigorous research component.

States would be allowed to set aside a portion of their funding to continue college outreach and information activities now made through FFEL subsidies.

CONCLUSION

The Recovery Act provided unprecedented levels of Federal support for our schools in return for a commitment to meaningful reform strategies. President Obama and I believe that the Recovery Act has created a historic opportunity to improve the quality of our education system, and we are determined to make the most of that opportunity. Our 2010 budget request would build on the resources and reforms in the Recovery Act to help create a public school system that prepares more students for the opportunities provided by a college education and helps ensure that they can afford to take advantage of those opportunities. I believe these are goals we all can agree on, and I urge you to support the President's fiscal year 2010 request for education.

I will be happy to take any questions you may have.