

Information Item

GRANT ADVISORY COMMITTEE

Federal Legislative and Budget Update

This tab is included as an informational item. In February 2005, the President outlined his spending priorities for the future by introducing his FY 2006 budget. Congress continues discussion regarding the President's budget proposal in addition to legislation introduced related to higher education, including Reauthorization of the Higher Education Act (HEA), among others.

The Bush Administration's budget and Congressional legislative proposals provide potential affects on the Federal Family Education Loan Program which also provide for subsequent affects on federally-funded grant programs.

This update includes information regarding:

- The President's FY 2006 Budget
- Update Regarding the FY 2006 Budget
- The Federal Direct Student Loan and Federal Family Education Loan Programs
- Update on Reauthorization and Legislation Introduced by the 109th Congress Related to Higher Education

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FEDERAL LEGISLATIVE AND BUDGET UPDATE

The Senate returned from recess on May 9, 2005. The House and Senate agreed to and passed a Budget Resolution outlining spending limitations for the federal government (Fiscal Year 2006). The details of these limitations will be further discussed during the coming months towards final approval of a FY 2006 budget.

With Congressional focus on the budget and reconciliation, reauthorization of the Higher Education Act (HEA) might be postponed until next year. Should reauthorization not occur this year, Congress could pass another one-year extension of the HEA similar to last year.

GENERAL INFORMATION

The President's FY 2006 Budget and its Potential Affects on Higher Education

In February 2005, the President outlined his spending plan by introducing his FY 2006 Budget. The following information on the next two pages provides a quantitative description of the President's FY 2006 Budget in comparison to prior years and specifically towards funds for State formula-allocated and selected student aid programs for California.

This information was obtained via the U.S. Department of Education.
(<http://www.ed.gov/about/overview/budget/statetables/index.html>)

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Funds for State Formula-Allocated and Selected Student Aid Programs
U.S. Education Funding
California

	2001	2002	2003	2004	2005	2006	Change Fiscal Year 2005 to 2006		2001 to 2006
	Actual	Actual	Actual	Actual	Estimate	Estimate	Amount	Percent	% Change
ESEA Title I Grants to Local Educational Agencies	1,185,906,438	1,448,833,975	1,649,697,459	1,765,537,626	1,782,921,731	1,865,502,140	82,580,409	4.6%	57.3%
Reading First State Grants	0	137,397,187	142,801,723	146,145,963	146,981,710	146,991,766	10,056	0.0%	---
Even Start	30,484,555	31,210,336	31,342,083	31,451,159	27,810,338	0	-27,810,338	-100.0%	-100.0%
State Agency Program--Migrant	118,769,825	127,545,988	127,545,988	127,573,296	126,526,065	126,525,937	-128	0.0%	6.5%
State Agency Program--Neglected and Delinquent	4,145,673	3,888,998	3,350,153	3,249,282	3,240,296	3,240,296	0	0.0%	-21.8%
Comprehensive School Reform (Title I)	26,717,068	30,996,645	31,096,447	31,344,563	27,680,353	0	-27,680,353	-100.0%	-100.0%
Capital Expenses for Private School Children	1,053,529	0	0	0	0	0	N/A	N/A	N/A
High School Intervention	0	0	0	0	0	69,733,796	69,733,796	---	---
Subtotal, Education for the Disadvantaged	1,367,077,088	1,779,873,129	1,985,833,853	2,105,301,889	2,115,160,493	2,211,993,935	96,833,442	4.6%	61.8%
Impact Aid Basic Support Payments	51,581,911	63,297,733	58,799,999	60,488,308	68,786,726	67,758,230	-1,028,496	-1.5%	31.4%
Impact Aid Payments for Children with Disabilities	4,224,942	4,206,625	3,808,072	3,849,621	4,208,907	4,156,641	-52,266	-1.2%	-1.6%
Impact Aid Construction	1,202,792	808,762	1,052,300	1,008,648	1,189,311	1,188,671	-640	-0.1%	-1.2%
Subtotal, Impact Aid	57,009,645	68,313,120	63,660,371	65,346,577	74,184,944	73,103,542	-1,081,402	-1.5%	28.2%
Improving Teacher Quality State Grants	0	332,170,724	341,185,718	341,331,785	339,015,227	339,015,227	0	0.0%	---
Mathematics and Science Partnerships	0	0	13,901,945	20,616,756	24,513,072	20,557,805	-3,955,267	-16.1%	---
Educational Technology State Grants	55,910,034	85,123,372	89,959,919	93,318,376	65,555,871	0	-65,555,871	-100.0%	-100.0%
21st Century Community Learning Centers	0	41,494,874	76,288,342	136,981,161	137,174,714	133,166,283	-4,008,431	-2.9%	---
State Grants for Innovative Programs	45,930,964	46,714,168	46,410,526	36,429,854	24,372,684	12,284,619	-12,088,065	-49.6%	-73.3%
State Assessments	0	29,379,201	30,621,018	32,267,812	33,527,053	33,527,053	0	0.0%	---
High School Assessments	0	0	0	0	0	22,244,133	22,244,133	---	---
Rural and Low-income Schools Program	0	2,719,404	2,573,030	1,425,730	1,449,457	1,449,457	0	0.0%	---
Small, Rural School Achievement Program	0	4,269,841	7,489,667	5,195,246	5,282,121	5,282,121	0	0.0%	---
State Grants for Community Service for Expelled or Suspended Students	0	6,724,307	6,652,068	0	0	0	0	---	---
Indian Education--Grants to Local Educational Agencies	6,584,676	6,551,544	6,706,324	6,460,486	6,408,824	6,484,819	75,995	1.2%	-1.5%
Teacher Incentive Fund	0	0	0	0	0	58,713,010	58,713,010	---	---
Fund for the Improvement of Education--Comprehensive School Reform	6,043,539	9,219,549	9,159,623	9,233,404	0	0	0	---	-100.0%
Safe and Drug-Free Schools and Communities State Gra	52,938,133	61,558,718	60,756,063	53,257,421	52,742,911	0	-52,742,911	-100.0%	-100.0%
Eisenhower Professional Development State Grants	53,702,377	0	0	0	0	0	N/A	N/A	N/A
Class Size Reduction	174,941,971	0	0	0	0	0	N/A	N/A	N/A
Language Acquisition State Grants	0	117,280,776	140,308,451	161,549,115	155,390,437	167,446,440	12,056,003	7.8%	---
Immigrant Education	32,069,254	0	0	0	0	0	N/A	N/A	N/A
Subtotal, All of the Above Programs, which constitute the No Child Left Behind Act of 2001	1,852,207,681	2,591,392,727	2,881,506,918	3,068,715,612	3,034,777,808	3,085,268,444	50,490,636	1.7%	66.6%
Education for Homeless Children and Youth	4,851,972	7,046,528	7,713,390	8,500,225	8,644,457	8,648,611	4,154	0.0%	78.2%
School Renovation Grants	138,523,710	0	0	0	0	0	N/A	N/A	N/A
Special Education--Grants to States	650,017,799	781,662,507	933,124,077	1,072,636,899	1,132,572,659	1,192,553,735	59,981,076	5.3%	83.5%
Special Education--Preschool Grants	39,848,701	39,848,701	39,529,222	39,550,707	39,160,720	39,160,669	-51	0.0%	-1.7%
Grants for infants and Families	46,979,082	49,954,044	52,016,926	54,397,335	53,695,159	53,695,147	-12	0.0%	14.3%
Subtotal, Special Education	736,845,582	871,465,252	1,024,670,225	1,166,584,941	1,225,428,538	1,285,409,551	59,981,013	4.9%	74.4%
Vocational Education State Grants	120,745,507	129,790,082	127,491,358	128,464,270	128,962,835	0	-128,962,835	-100.0%	-100.0%
Tech-Prep Education State Grants	11,895,013	12,177,613	11,688,655	11,563,216	11,355,769	0	-11,355,769	-100.0%	-100.0%
Subtotal, Vocational and Adult Education	132,640,520	141,967,695	139,180,013	140,027,486	140,318,604	0	-140,318,604	-100.0%	-100.0%
Subtotal, All Elementary/Secondary Level Programs	2,865,069,465	3,611,872,202	4,053,070,546	4,383,828,264	4,409,169,407	4,379,326,606	-29,842,801	-0.7%	52.9%

Funds for State Formula-Allocated and Selected Student Aid Programs
U.S. Education Funding
California

	2001	2002	2003	2004	2005	2006	Change Fiscal Year 2005 to 2006		2001 to 2006
	Actual	Actual	Actual	Actual	Estimate	Estimate	Amount	Percent	% Change
Federal Pell Grants	1,200,100,000	1,318,200,000	1,436,700,000	1,471,400,000	1,471,600,000	1,560,000,000	88,400,000	6.0%	30.0%
Federal Supplemental Educational Opportunity Grants	72,922,843	76,510,940	80,207,474	81,307,911	82,180,136	82,180,135	-1	0.0%	12.7%
Federal Work-Study	111,356,320	111,356,320	110,632,504	109,979,730	109,071,590	109,071,585	-5	0.0%	-2.1%
Federal Perkins Loans--Capital Contributions	11,298,174	11,298,174	11,224,736	11,158,528	0	0	0	---	-100.0%
Leveraging Educational Assistance Partnership	8,445,098	10,298,903	10,220,874	10,160,526	10,079,301	0	-10,079,301	-100.0%	-100.0%
Byrd Honors Scholarships	4,993,500	5,101,500	5,071,500	5,166,000	5,139,000	0	-5,139,000	-100.0%	-100.0%
Subtotal, All Postsecondary Education Programs	1,409,115,935	1,532,765,837	1,654,057,088	1,689,172,695	1,678,070,027	1,751,251,720	73,181,693	4.4%	24.3%
Vocational Rehabilitation State Grants	234,214,418	243,137,267	251,750,039	247,893,144	248,655,290	259,965,509	11,310,219	4.5%	11.0%
Client Assistance State Grants	1,192,563	1,207,727	1,232,680	1,231,546	1,224,186	1,226,356	2,170	0.2%	2.8%
Protection and Advocacy of Individual Rights	1,398,943	1,514,547	1,693,359	1,691,911	1,681,759	1,684,939	3,180	0.2%	20.4%
Supported Employment State Grants	4,161,014	4,125,408	4,121,066	4,123,626	4,085,000	0	-4,085,000	-100.0%	-100.0%
Independent Living State Grants	1,986,795	1,980,087	1,978,260	1,975,296	2,050,193	2,053,149	2,956	0.1%	3.3%
Services for Older Blind Individuals	1,713,855	2,290,298	2,622,009	3,086,562	3,286,143	3,286,143	0	0.0%	91.7%
Assistive Technology State Grant Program	0	0	0	0	657,838	0	-657,838	-100.0%	---
Protection and Advocacy for Assistive Technology	50,000	50,000	455,130	435,629	421,079	0	-421,079	-100.0%	-100.0%
Adult Basic and Literacy Education State Grants	52,665,928	56,712,395	63,213,469	64,223,365	63,714,874	15,429,018	-48,285,856	-75.8%	-70.7%
English Literacy and Civics Education State Grants	20,821,914	19,608,981	18,324,637	18,051,837	17,667,652	17,667,652	0	0.0%	-15.1%
State Grants for Incarcerated Youth Offenders	1,810,924	1,752,413	1,940,308	2,178,727	2,391,536	0	-2,391,536	-100.0%	-100.0%
Subtotal, All Other	320,016,354	332,379,123	347,330,957	344,891,643	345,835,550	301,312,766	-44,522,784	-12.9%	-5.8%
Total	4,594,201,754	5,477,017,162	6,054,458,591	6,417,892,602	6,433,074,984	6,431,891,092	-1,183,892	0.0%	40.0%
New Student Loan Volume:									
Federal Direct Student Loans	963,316,745	1,025,071,217	1,143,192,002	1,212,778,592	1,309,114,287	1,434,550,082	125,435,795	9.6%	48.9%
Federal Family Education Loans	2,334,991,696	2,571,612,543	2,739,726,228	3,190,422,446	3,490,008,150	3,818,615,799	328,607,649	9.4%	63.5%
Total, New Student Loan Volume	3,298,308,441	3,596,683,760	3,882,918,230	4,403,201,038	4,799,122,437	5,253,165,881	454,043,444	9.5%	59.3%
Grand Total	7,892,510,195	9,073,700,922	9,937,376,821	10,821,093,640	11,232,197,421	11,685,056,973	452,859,552	4.0%	48.1%

NOTES:

N/A = Not applicable. Program was consolidated or terminated under the No Child Left Behind Act of 2001.

NOTE: State allocations for fiscal years 2005 and 2006 are preliminary estimates based on currently available data. Allocations based on new data may result in significant changes from these preliminary estimates.

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The budget addresses the President's key priorities while restraining overall spending. The budget provides increases towards improving national security and the War on Terror. It also increases funding for key priorities such as economic growth and job creation, education, and affordable health care. Additionally, the budget restrains spending in other areas of government – keeping non-defense, non-homeland security Federal spending growth to less than 1% (less than the rate of inflation) to cut the deficit in half within five years.

Regarding higher education, the President's budget contains implications for grants, Guaranty Agencies and the entire Federal Family Education Loan (FFEL) program community. Below are highlights of the Presidents budget regarding higher education.

Highlights: Grant Programs

- **Retire The \$4.3 Billion Pell Grant Shortfall While Increasing The Maximum Pell Award By \$100 Annually Over The Next Five Years, From \$4,050 To \$4,550.** In 2006, the program would provide a record \$13.7 billion in grants to 5.5 million low-income postsecondary students. These proposals would be funded through a combination of mandatory savings and programmatic changes.
 - The discretionary amount for 2006 includes \$33 million for proposed Enhanced Pell Grants for State Scholars. The mandatory amount for 2006 includes \$420 million to support a \$100 increase in the maximum Pell Grant, to \$4,150, and \$4.3 billion to eliminate prior-year funding shortfalls.
- **Elimination of all vocational and technical education programs (\$1.3 billion);** GEAR UP (\$306.5 million), Safe and Drug-Free Schools and Communities State Grants (\$437.4 million), several TRIO programs, including Talent Search and Upward Bound (\$467.2 million) and Even Start (\$225 million) and LEAP/SLEAP (\$65.6 million).
 - **GEAR UP.** The GEAR UP program is a discretionary grant program designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP provides five-year grants to States and partnerships to provide services at high-poverty middle and high schools. GEAR UP grantees serve an entire cohort of students beginning no later than the seventh grade and follow the cohort through high school. GEAR UP funds are also used to provide college scholarships to low-income students.
 - **LEAP/SLEAP Programs.** The President's budget also proposes to eliminate funding for the Leveraging Educational Assistance Partnership (LEAP) and Special LEAP (SLEAP) programs which provides grants to states to assist them in providing need-based grants and community service work-study assistance to eligible postsecondary students. The LEAP and SLEAP programs use matching Federal and State Funds to provide a nationwide system of grants to assist postsecondary educational students with substantial financial need.
 - **FSEOG.** Although the President's budget provides funding for the Federal Supplemental Educational Opportunity Grants (FSEOG), the allocation for this program

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remains the same as last year. The FSEOG Program provides need-based grants to low-income undergraduate students to promote access to postsecondary education. FSEOG allocations are made to eligible institutions for the purpose of providing grants to needy undergraduate students attending the institution.

- **Federal Work-Study Program.** Although the President's budget provides funding for the Federal Work-Study Program, the budget provides a minor funding reduction for this program. The Work-Study program provides grants to participating institutions to pay up to 75 percent of the wages of needy undergraduate and graduate students working part-time to help pay their college costs. The school or other eligible employer provides the remaining 25 percent of the student's wages. At the request level, over 800,000 students would receive more than \$1 billion in award year 2005-06.
- **Elimination of the Robert C. Byrd Scholarship Program.** The President's budget also proposes to eliminate the Robert Byrd Teacher Scholarship Program which would mean a loss of \$5.67 million for California recipients.

Highlights: Loan Program

- **Guaranty Agency "G" Fee Provisions.** The President's budget proposes that all guarantee agencies "be required to collect the 1 percent insurance premium, paid by either the borrower or the lender, on all loans disbursed after July 1, 2006
- **Variable Rate.** The pending change from a variable interest rate to a fixed 6.8 percent rate that was to be effective beginning July 1, 2006 would be repealed and the lower-cost variable rate provisions that save borrowers money would be continued.
 - On the other hand, the current provision that allows consolidation loan borrowers to lock in current low interest rates throughout their repayment period would be changed so that consolidation loans would be subject to variable interest rates as well. The budget argues that the high cost of maintaining the current fixed low-interest subsidies for these borrowers was preventing the federal government from using needed funds to invest in grants and other federal aid programs.
- **Federal Reinsurance Rates.** The President's budget proposes to reinsure guarantee agencies for only 92 percent of the amount they paid in lenders' default claims instead of the current 95 percent reinsurance level. This would add to the drain on the Federal Reserve Fund account and require larger transfers to that account from the Student Loan Operating Fund account to maintain minimum Federal Fund reserve requirements.
- **Non-Consolidation Fees.** The President's budget proposes to increase the fee lenders and loan holders are charged for all non-consolidation loans from 50 to 75 basis points and for all consolidation loans from 50 to 100 basis points. Lender margins in the federal loan program have been reduced in each successive reauthorization.
- **Extended Repayment Options.** The budget proposes to provide extended repayment options to FFEL program borrowers. These options are currently available to Direct Lending borrowers.

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- **Loan Limits.** Annual borrowing limits would be increased for the first time in decades. The subsidized loan limits would go from \$2,625 to \$3,500 for first-year students, \$3,500 to \$4,500 for second-year students, remain at \$5,500 for upper division students in their third-, fourth, or fifth-years, and annual unsubsidized loan limits would increase from \$10,000 to \$12,000 per year for graduate and professional students in addition to the \$8,500 in subsidized loans these graduate-level students are eligible to borrow.
- **Higher Loan Limits, Lower Interest Rates, More Flexible and Lower-Cost Repayment Options For Students.** This would result from a package of comprehensive student loan reforms proposed as part of the upcoming Reauthorization of the Higher Education Act. These reforms would make the student loan programs more efficient, cost-effective vehicles for helping students finance their postsecondary educations, in part through reductions in loan subsidies to financial participants in the Federal Family Education Loans Program.

Congressional Debate Regarding the President's Budget

In late April 2005, the House and Senate passed a Fiscal Year 2006 Budget Resolution (H. Con. Res. 95 and S. Con. Res. 18) that includes reductions in education spending. The agreement requires entitlement cuts of \$35 billion over five years. About one-third (\$12.6 billion) of the cuts would apparently come from the student loan and pension insurance programs.

The House Education and the Workforce Committee received a "Budget Reconciliation instruction" requiring it to make cuts that are projected to save \$12.65 billion over five years. It has been assumed that \$6 - \$7 billion of these reductions would come from student loan programs. However, the budget resolution does not stipulate where these cuts will come from. The Senate Health, Education, Labor and Pensions (HELP) Committee instructions are for \$13.65 billion in cuts over five years with the difference expected to come out of health programs under the HELP Committee's jurisdiction that are not covered by House Education and the Workforce Committee. Lawmakers could accomplish the projected savings by cutting subsidies to lenders or reducing benefits to students, or both. It remains uncertain how those savings would be used.

The President's budget includes an \$843 billion discretionary spending cap for FY 2006, which would be an expected 1 percent cut to domestic programs. However, it calls for a \$100 increase in the maximum Pell Grant and sets up a process for eliminating the \$4.3 billion accumulated Pell Grant funding shortfall.

Additional provisions of the Budget Resolution regarding higher education:

- Does not include \$5.4 billion in increased (discretionary) education funding added by the Kennedy amendment;
- In March 2005, the Senate approved an amendment offered by Senator Ted Kennedy (D-MA) to the Senate's Budget Resolution bill, increasing discretionary education spending by \$5.4 billion for FY 2006.

The Kennedy Amendment would have provided assumptions on how the additional \$5.4 billion for FY 2006 would be spent such as: increasing the Pell Grant maximum

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award to \$4,500; restoring funding for TRIO, GEAR UP, LEAP, and Perkins loans; and provide for cost of college increases in FSEOG, Federal Work-Study, and graduate education programs. The Kennedy amendment also assumed a guarantee of up to \$23,000 in student loan forgiveness for four years of teaching by new math, science, and special education teachers in high-need schools, and restores the President's proposed cuts to job training/adult literacy. The Kennedy amendment also would have restored funding for the Perkins Vocational Education Act.

- Accepts the overall figure proposed by the Bush Administration for discretionary spending of \$843 billion as re-estimated for FY 2006, which could lead to student aid cuts in appropriations bill later this year;
- Includes approximately \$7 billion in reconciliation savings in the student loan programs;
- Includes an assumption to raise the FY 2006 Pell Grant maximum award to \$4,150;
 - The \$100 increase in the maximum Pell Grant to \$4,150 came after Republican leaders stripped out a student-aid amendment added to the Senate budget resolution that would have raised the maximum grant next year by \$450. The funds for the Pell Grants are not new money, but simply dollars moved from other budget accounts.
- Includes a reserve fund and budget scoring language for the future concerning the \$4.3 billion Pell Grant shortfall;
- Includes language on cost-estimating and scoring for the Direct Loan Program; and
- Includes other budget enforcement tools for Congress that affects both appropriations and authorization bills.

By retaining the President's discretionary funding mark (\$843 billion), and not accepting the "Kennedy amendment" that restored funding for student aid (i.e., TRIO, GEAR UP, LEAP, Perkins Loans, FSEOG, Federal Work-Study and graduate education programs), the resolution increases Pell Grant funding, but continues the downward pressure on other educational programs that were recommended for elimination in the President's FFY 2006 budget.

With the House and Senate passing a budget resolution, House Appropriations Chairman Jerry Lewis (R-CA) is ready to begin the appropriations process this year. The House Appropriations Committee is expected to approve 302 (b) allocations, which it has not made public and begin subcommittee markups of the Homeland Security and Interior appropriations bills, the least politically sensitive bills. Reportedly, Rep. Lewis has set a goal of having the House pass all 11 of its regular appropriations bills by July 4, 2005.

Federal Direct Loan Student Loan (FDL) versus Federal Family Education Loan (FFEL) Program

In March 2005, Thomas Petri (D-WI) introduced legislation (H.R. 1425) that would provide colleges and universities with financial aid incentives rewarding them for their participation in the William D. Ford Federal Direct Student Loan (FDL) program and encouraging them to switch from the Federal Family Education Loan (FFEL) program.

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Schools participating in the Direct Loan program would be rewarded with grant aid to increase federal Pell scholarships by as much as \$1,000 each and/or provide need-based awards to lower- and middle-income graduate students.

The companion bipartisan bills in the House and Senate counted among their sponsors George Miller (D-CA), Barbara Lee (D-CA), Diane Watson (D-CA), Bob Filner (D-CA), and Nancy Pelosi (D-CA).

According to Congressional Budget Office estimates, the Act could generate \$17.2 billion over 10 years in additional funding for Pell grants and/or graduate need-based aid. However, a recent study by PriceWaterhouseCoopers and previous studies by the General Accounting Office (GAO), Congressional Budget Office (CBO), and Congressional Research Service (CRS) have demonstrated that budget scorekeeping rules understate the accurate costs of FDL.

Although Congress strongly supports the Federal student loan programs, it is increasingly concerned that subsidy estimates for the William D. Ford Federal Direct Student Loan program do not reflect the program's true cost to the Federal Government. For example, the President's 2006 budget reveals that although the program was expected to result in a net savings of \$2 billion from its inception through fiscal year 2004, the actual experience is that the program resulted in a net cost to taxpayers of \$3 billion over the same period. This represents a \$5-billion underestimate of the program's actual cost to taxpayers over approximately 10 years.

Accordingly, Congress supports the administration's continuing efforts to direct the U.S. Department of Education (USDE) to refine and improve its cost estimating techniques for this program. Congress also believes it is important for estimates to be corrected for all known deficiencies so that decision makers have sufficient information to compare the costs to taxpayers of competing policy options, and large-scale structural reform proposals, in the student loan programs.

Update on HEA Reauthorization and Legislation Introduced by the 109th Congress Related to Higher Education

House Education and the Workforce Committee Chairman John Boehner (R-OH) has stated that the Committee will not be able to proceed with reauthorization until lawmakers know whether reconciliation is going to occur and, if it is, what kind of cuts they will have to make.

Meanwhile, aides to Senator Michael Enzi (R-WY), Chairman of the Health, Education, Labor, and Pensions Committee (HELP) indicate that he is planning to introduce the Senate's version of the reauthorization legislation later this month or in June regardless of the budget-reconciliation process.

With Congressional focus continuing on the budget and reconciliation, reauthorization of the Higher Education Act (HEA) might be postponed until next year. Should reauthorization not occur this year, Congress could pass another one-year extension of the HEA similar to last year. The Federal Policy and Programs Division (FPPD) will continue to monitor legislation and activities related to reauthorization.

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Legislation Introduced by the 109th Congress Related to Higher Education

With the unveiling of President Bush's Fiscal Year 2006 budget request, lawmakers continue to introduce a host of bills aimed at students, parents, and higher education institutions, for consideration during the forthcoming budget and appropriations debates.

Below is chronological list of key bills, a summary of their provisions and status as proposed by Congressional members. FPPD will continue to monitor and study these legislative proposals, and others introduced and assigned to Committees for debate. An oral update will be provided regarding any change in the status of a bill.

S 15**Position: None****Author/Sponsor:** Sen. Jeff Bingaman (D-N.M.).**Subject:** Quality Education for All Act**Bill Status:** As introduced, Referred to Committee on Finance

- Increasing the maximum Pell Grant to \$5,100 for 2006-2007
 - Making Hope and Lifetime Learning tax credits refundable
 - Increasing funds for TRIO and GEAR UP
 - Increasing Access to Head Start programs
 - Making sure the recent tax tables update used in the Federal Need Analysis Methodology does not reduce the amount of aid for which students are eligible
 - Making public college tuition free for future mathematics, science, and special education teachers
 - Increasing the Tuition & Fees Deduction to \$12,000 and making it permanent
 - Switching from a deduction for student loan interest to a tax credit.
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S 187**Position: None****Author/Sponsor:** Jon Corzine (D-NJ)**Subject:** Ensuring College Access for all Americans Act**Bill Status:** As Introduced, Referred to Committee on Health, Education, Labor, and Pensions

- Limits the applicability of the annual updates to the allowance for State and other taxes in the tables used in the Federal Needs Analysis Methodology for the award year 2005-2006, published in the Federal Register on December 23, 2004.
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HR 132**Position: None****Author/Sponsor:** Ric Keller (R-FL)**Subject:** No Financial Aid for Sex Offenders Act**Bill Status:** Introduced, Referred to the Subcommittee on 21st Century Competitiveness

- Amends the Higher Education Act of 1965 to prohibit the award of Pell grants and student loans to individuals subject to an involuntary civil commitment upon completion of a period of incarceration for a sexual offense.

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HR 151

Position: None

Author/Sponsor: Bob Menendez (D-NJ)

Subject: Higher Education Affordability Resource Act

Bill Status: Referred to the Subcommittee on 21st Century Competitiveness

- Expands HOPE Scholarship credit to cover expenses for other educational expenses.
- Loan forgiveness for Public Service Employees
- Allows Year round Pell Grants
- Outlines special transition assistance plans for borrowers

HR 507

Position: None

Author/Sponsor: John Boehner (R-OH)

Subject: College Access and Opportunity Act of 2005

Bill Status: As Introduced, Referred to Committee on Education and Workforce

- **Strengthening Pell Grants.** The legislation will seek to provide expanded Pell Grants for high-achieving, low-income first and second-year students (“Pell Grants Plus”), allow appropriations for the maximum Pell Grant award to be increased to as much as \$5800 per award; provide year-round Pell Grant aid for students attending school throughout the year; and remove an incentive for colleges to raise tuition by repealing Pell Grant “tuition sensitivity,” a current federal rule that limits the amount of Pell Grant aid a student attending a very low-cost institution can receive.
- **Permanently shutting down excess lender subsidies.** The proposed legislation would keep excess 9.5% floor subsidies shut down permanently and set the money aside for college access programs without shutting down non-profit student aid providers. The bill also seeks to reform income guarantees for lenders, redirecting excess lender earnings to expand student access.
- **Simplifying the college aid application process.** The bill will seek to implement some of the simplification recommendations recently made by the Advisory Committee on Student Financial Assistance.
- **Fairness for non-traditional students.** The bill would eliminate rules that restrict student benefits at particular types of institutions and instead would allow all degree-granting, accredited institutions to compete on a level playing field for programs to serve students. The bill would also eliminate restrictions on distance education, and would strengthen the college access programs that assist non-traditional, needy, and first-generation college students achieve their goals.
- **Reducing the fees students pay on student loans and updating loan limits.** The bill will seek to expand access through the loan programs by reducing origination fees paid by students, and by moderately increasing loan limits for first and second year students without increasing overall debt limits.
- **Phasing out unfair advantages in campus-based student aid.** To provide fairness for students, the bill will phase out the current formula to ensure fairness for lower-cost institutions and the students who attend such schools.

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- **Implementing GAO's recommended changes on loan consolidation.** Switches the consolidation loan program from a fixed interest rate structure to a variable interest rate structure. Proposal would also keep that same variable rate structure in place for all student loans.
- **Streamlining the financial aid process to make it easier for students and schools.** Extend incentives for institutions to keep their student loan default rates low and allow students to receive loan funds faster as originally proposed in FED UP bill. The bill would also make technical corrections and improvements to reduce red tape and streamline the financial aid process for both students and schools.
- **Strengthening Minority Serving Institutions.** Strengthen opportunities for minority serving institutions by: making it easier for minority serving institutions to use technology to improve education; increasing the minimum grant for Historically Black Colleges and Universities (HBCUs); simplifying the grant application process for Tribally Controlled Colleges and Universities; reducing red tape for Hispanic Serving Institutions (HSIs) by eliminating the two-year lapse between grant applications HSIs are forced to contend with under current law; and permitting all minority serving institutions to use grant funds to establish and build endowments, ensuring these institutions can continue to serve their students now and into the future.
- **Expanding student loan relief for teachers.** Expanded loan forgiveness by making the higher loan relief available permanently to math, science, and special education teachers who teach in low-income schools for five years.
- **Empowering consumers with access to better information.** This will include information about cost, accreditation, and transfer of credit policies.
- **Creating opportunities for graduate study that will improve K-12 education.** Expand opportunities for graduate study in math, science, and special education with the hope of contributing to these shortage subject areas in K-12.
- **Strengthening international and foreign language studies programs for the post-9/11 era.**
- **For-profit institutions.** Eliminate a rule that requires a for-profit college to receive at least 10 percent of its tuition-and-fee revenue from nonfederal sources. Also removes the "50-percent rule" which prevents institutions that offer more than half of their courses via distance education from participating in student-aid programs. Also replaces the definition of "an institution of higher education" in the law with one that includes proprietary institutions.

HR 508

Position: None

Author/Sponsor: Rep. Howard "Buck" McKeon (R-CA)

Subject: FED UP Higher Education Technical Amendments Act

Bill Status: Referred to Subcommittee on 21st Century Competitiveness

The bill is designed to identify and simplify regulations in the Higher Education Act (HEA), and is included in the HEA reauthorization bill, the College Access and Opportunity Act. Specifics include:

- Helping students avoid loan defaults by removing barriers to students seeking forbearance from lenders on student loan payments by eliminating the requirement that new agreements

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between lenders and borrowers be in writing (however, lenders must provide notice to borrowers of the terms of any new agreement).

- Clarification that federal aid can go to low-income and minority law school students and clarification that home-schooled students can receive aid.
 - Eases aid requirements for Hispanic-Serving Institutions.
 - Extends incentives for institutions to keep default rates low and allow students to receive loan funds faster (Schools with default rates under 10 percent for three consecutive years may waive the 30-day delay on providing loans to first-time borrowers who are first-year students. Schools that meet this low rate also may request one-term loans in a single disbursement, rather than the required multiple disbursement.)
 - Expands the use of technology to provide information to students faster.
 - Protects students' grant aid upon withdrawal.
 - Encourage institutions to use technology in their reports to the federal government.
 - Allows financial aid professionals to use professional judgment when a student is a ward of the court.
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HR 511**Position: None****Author/Sponsor:** Ric Keller (R-FL)**Subject:** Pell Grants Plus Act**Bill Status:** Referred to the House Committee on Education and the Workforce

- Amends the Higher Education Act of 1965 (HEA) to direct the Secretary of Education to establish a program to award Pell Grants Plus grants to students who: (1) have completed a rigorous secondary school program for State Scholars; (2) are enrolled full-time in their first year of undergraduate education; and (3) are eligible to receive Federal Pell Grants for that year.
 - Sets such Plus grant award at \$1,000. Provides for a continuation award for the second year of undergraduate education if the student maintains compliance with certain eligibility requirements and obtains a grade point average of at least 3.0 for the first year.
 - Repeals HEA provisions for Academic Achievement Incentive Scholarships.
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HR 555**Position: None****Author/Sponsor:** Congressman Dale E. Kildee (D-MI) and Chris Van Hollen (D-MD)**Subject:** School-As-Lender Reform Act of 2005**Bill Status:** Referred to Subcommittee on 21st Century Competitiveness

- Ensure that all profits from loans made by schools would be used for grant aid for needy college students.
- Require that grant aid derived from loan profits is in addition to and not instead of existing financial aid for students.
- Require competitive bidding for any lender related activities for which a school contracts with outside entities.

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- Require schools operating school as lender programs to offer a less costly loan package to students than is permitted under the law.
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HR 609 (Companion Bill HR 507)**Position: None****Author/Sponsor:** John Boehner (R-OH)**Subject:** College Access and Opportunity Act of 2005**Bill Status:** Introduced and referred to Committee on Education and the Workforce on February 8th.

- Revises the definition of institution of higher education to eliminate:
 - (1) A requirement that for-profit institutions of higher education derive at least ten percent of their revenue from funds that do not come from HEA title IV student assistance programs (the 90/10 rule); and
 - (2) A restriction on distance education in terms of relative number of courses an institution may offer by telecommunications, and relative number of students enrolled in such courses, for purposes of student assistance program eligibility (the 50 percent rule).
 - Allows for-profit institutions to compete with traditional institutions in applying for campus-based aid.
 - Revises HEA title IV (Student Assistance) to:
 - (1) Require a variable rather than a fixed interest rate for consolidation loans;
 - (2) Reduce loan origination fees;
 - (3) Increase subsidized loan limits; and
 - (4) Modify need analysis requirements.
 - Establishes:
 - (1) Pell Grants Plus grants for State scholar students;
 - (2) Policies for institutions' transfer of credits;
 - (3) A college access initiative;
 - (4) An expanded distance education demonstration; and
 - (5) A college affordability demonstration.
 - Cancels student loan indebtedness for families of 9/11 victims.
 - Reauthorizes appropriations for HEA Titles I - VII:
Specifically for Title IV: Student Assistance: including Pell grants, TRIO, GEAR UP, supplemental educational opportunity grants, LEAP, HEP/CAMP, Byrd scholarships, child care access, Federal Family Education Loans, work-study, Direct Loans, and Perkins Loans;
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HR 685**Position: None****Author/Sponsor:** Barney Frank (D-MA)**Subject:** No title (Purpose: To amend the Higher Education Act of 1965 to repeal the provisions prohibiting persons convicted of drug offenses from receiving student financial assistance)**Bill Status:** Carryover from the 108th Congressional Session

- Repeals the statute from HEA Reauthorization in 1998 that disallows those with drug related offenses to receive federal financial aid (many states have followed suit in regards to state aid).

The Drug Provision

The 1998 reauthorization of the HEA included a new provision that blocked college opportunities to students revealing drug convictions on their Free Application for Federal Student Aid (FAFSA). Convictions before age 18 do not apply. It provides that a student's eligibility for aid is suspended or revoked according to the schedule specified in the following table:

If convicted of an offense involving—

The possession of a controlled substance: Ineligibility period is:

First offense	1 year
Second offense	2 years
Third offense	Indefinite

The sale of a controlled substance: Ineligibility period is:

First offense	2 years
Second offense	Indefinite

The drug provision also provides that a student may resume eligibility for aid if that student satisfactorily completes a drug rehabilitation program which meets certain requirements prescribed by regulation.

When filling out the FAFSA, Question 35 asks applicants to indicate if they have ever been convicted of "possessing or selling illegal drugs." If an applicant's answer is anything other than "no," the applicant is then required to fill out a worksheet to determine if and when the applicant will resume eligibility for federal student financial aid.

HR 1425**Position: None****Author/Sponsor:** Thomas Petri (D-WI)**Subject:** Student Aid Reward Act of 2005**Bill Status:** Referred to Subcommittee on 21st Century Competitiveness

- Provide colleges and universities with financial aid incentives rewarding them for their participation in the most cost effective lending program.
- According to the Congressional Budget Office estimates, the Act could generate \$17.3 billion over 10 years in additional funding for Pell grants and/or graduate need-based aid.

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- The bill also provides schools participating in the most cost effective lending program a reward with grant aid to increase federal Pell scholarships by as much as \$1,000 each and/or provide need-based awards to lower- and middle-income graduate students.
 - The bill provides that each year, the Secretary of Education would determine which program is more cost effective. The Secretary would then allocate up to \$1000 to a "Pell Scholarship Fund" at the institution that participated in the cheapest program.
- Several Democrats (CA – George Miller (D), Barbara Lee (D), Diane Watson (D), Bob Filner (D), and Nancy Pelosi (D) and moderate Republicans are in support of this bill and its companion S 754.

This bill is currently a proposal and cannot become law without the approval of Congress and the President. Any substantive changes to either loan program would be addressed through the legislative process including reauthorization of the Higher Education Act.

Democrats strongly support the Direct Lending program but recognize that they can't eliminate the FFEL program. However, Democrats continue providing a strong "push" behind this bill. Additionally, a recently released report "Easy Money: How Congress Could Increase Federal Student Aid Funding at No Additional Cost to Taxpayers" claims that \$3 billion in additional federal financial student aid could be provided to students next year at no cost to the government if Congress passes the Act. The report was published by the State Public Interest Research Groups' Higher Education Project, the U.S. Student Association, and the American Association of Collegiate Registrars and Admissions Officers.

The House leadership and other Republicans support the FFEL program and continue to state their preference for competition between the FFEL and Direct Lending programs. They also have indicated that competition should not include financial incentives favoring one program over the other.

Although Chairman Boehner and the Republican majority oppose the bill, it points to a way in which the student loan program can produce budget savings by promoting greater competition within the FFEL program. As such, national debate continues regarding the accuracy and methodology used to estimate the comparative costs and/or savings of the Direct Lending and FFEL programs to the federal government. In an attempt to resolve the dispute regarding the accuracy and methodology used, the House Budget Resolution Includes language on cost-estimating and scoring for the Direct Loan Program.