

## **The Latest Word from ISAC on...**

### **The FFY08 Budget for the Department of Education**

#### *President's Budget Request*

On February 5, 2007, President Bush released his FFY08 Budget Request, which includes \$56 billion in appropriations for the Department of Education. The President's budget request provides \$15.2 billion in funding for the Pell Grant program, which includes \$13.2 billion in discretionary funding (funding that is subject to the annual appropriations process) and \$2.2 billion in mandatory funding (funding that is not subject to the annual appropriations process). The mandatory funding would be used to raise the maximum Pell Grant from the current \$4,310 to \$4,600 in academic year 2008-09. The President also proposes making year-round Pell Grants available at eligible 2- and 4-year degree granting schools, limiting Pell Grant eligibility to 16 semesters, removing the tuition sensitivity rule, and excluding funds held by a student or parent in a 529 account from the needs analysis formula that is used to determine financial need.

The President's budget request also includes \$1.18 billion in funding for the Academic Competitiveness Grants for FFY08 – \$830 million for the ACG Grant Program and \$350 million for the National SMART Grant Program. This includes funding that would be used to increase individual ACG Grant awards for eligible first- and second-year students by 50 percent from the current \$750 and \$1,300, respectively to \$1,125 and \$1,950, respectively. According to the Administration, these increases, combined with the increase in the maximum Pell Grant, would: cover 86 percent of the cost of tuition and fees for freshmen and all tuition and fees for sophomores at the average public 4-year school; and at a public 2-year school, the increases would cover all tuition and fees for freshman and sophomores and provide \$3,000 in living expenses for freshmen and \$4,000 for sophomores.

The budget request provides funding at the FFY2007 levels (level-funding) for the Federal TRIO programs, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), the Federal Work-Study Program, and for Strengthening Historically Black Colleges and Universities (HBCUs), Historically Black Graduate Institutions (HBGIs), and Developing Hispanic-Serving Institutions (HSIs).

The President's budget request also provides for the elimination of several higher education programs that, according to the Administration, "have achieved their original purpose, are duplicate of other programs, are narrowly focused, or are unable to demonstrate effectiveness." These programs include the Leveraging Educational Assistance Partnerships (LEAP) Program (which includes SLEAP), the Robert C. Byrd Honors Scholarship Program, the Federal Supplemental Educational Opportunity Grant (SEOG) Program, and Federal Perkins Loan cancellations.

The budget request also proposes several changes to current policies affecting lenders and guarantors. These changes include: reducing the lender subsidy paid on Stafford loans in repayment by 50 basis points and by 80 basis points on PLUS loans; reducing the lender insurance rate from 97% to 95% and for Exceptional Performers from 99% to 97%; increasing the lender paid origination fee on consolidation loans from 0.5% to 1%; reducing the collection retention percentage guarantors receive from 23% to 16%; and moving the guarantor Account Maintenance Fee (AMF) to a unit cost basis.

The President's Budget Request also proposes increasing the annual loan limits for juniors and seniors from \$5,500 each year to \$7,500 each year, and increasing the aggregate loan limits for all students.

### House Appropriations Bill

On July 19th, the House passed its bill (H.R. 3043) that provides appropriations for the Departments of Labor, Health and Human Services and Education (Labor-HHS-Ed). The House bill provides \$61.7 billion in overall funding for the Department of Education, which is \$4.2 billion (or 7.4%) over the FFY07 levels. The House bill provides \$15.6 billion in funding for the Pell Grant Program, which includes increasing the maximum grant award to \$4,700 for academic year 2008-09. **Note:** *The House has included several other changes relating to Pell Grants as part of its budget reconciliation bill.* The House bill also provides an increase in the funding for the Academic Competitiveness Grants from \$820 million to \$920 million, but does not include increasing the individual grant awards.

The House bill provides level funding for the Federal Supplemental Educational Opportunity Grant (SEOG), Federal Work-Study, Perkins Loan cancellations, and LEAP/SLEAP Programs. The bill provides a slight increase in funding for the Federal TRIO, GEAR UP and Byrd Scholarship Programs, as well as for Strengthening HBCUs and HBGIs and Developing HSIs. The House bill does not contain any higher education program eliminations.

The House appropriations bill does not contain any of the changes to current lender and guarantor policies, or the increase in the annual and aggregate loan limits that President Bush included in his budget request, however, changes are proposed in these areas as part of the House budget reconciliation bill.

### Senate Appropriations Bill

On June 21<sup>st</sup>, the Senate Appropriations Subcommittee passed its FFY08 Labor-HHS-ED appropriations bill. The Senate bill provides \$14.5 billion in funding for the Pell Grant Program, which is a \$826.3 million increase (or 6%) over the FFY07 funding and \$1.3 billion (or 9.6%) over the President's request. The Senate bill proposes leaving the maximum grant award at the FFY07 level of \$4,310. The Senate bill also provides an increase in the funding for the Academic Competitiveness Grants from \$820 million to \$920 million, but similar to the House bill, does not include increasing the individual grant awards.

The Senate bill provides level funding for the Federal Supplemental Educational Opportunity Grant (SEOG), Federal Work-Study, Perkins Loan cancellations, and LEAP/SLEAP Programs, as well as for Strengthening HBCUs and HBGIs and Developing HSIs. The bill provides a slight increase in funding for the Federal TRIO, GEAR UP and the Byrd Scholarship Programs. Like the House bill, the Senate bill also does not contain any higher education program eliminations.

The Senate appropriations bill does not contain any of the changes to current lender and guarantor policies, or the increase in the annual and aggregate loan limits that President Bush included in his budget request, however, changes to lender and guarantor policies are proposed as part of the Senate budget reconciliation bill.

The full Senate did not vote on its Labor-HHS-Ed appropriations bill prior to adjourning for the Congressional summer recess, and according to staff members, the Senate may not consider its bill until some time in early October.

See the chart below for a side-by-side comparison of the President's FFY08 Budget Request and the House and Senate Appropriation bills.

## Comparison of President's FFY08 Budget Request and House and Senate Appropriation Bills

Topic	FFY07 Appropriations	President Bush's FFY08 Budget Request	House Appropriations Bill (H.R. 3043)	Senate Appropriations Bill (S. 1710)
<b>Federal Student Aid (FSA) – Student Financial Assistance</b>				
<b>ACG Grants</b>	\$850,000,000	AC/SMART Grants \$920,000,000 Annual Award Increase 260,000,000 <i>Total Funding</i> \$1,180,000,000	\$920,000,000	\$920,000,000
<b>ACG Grant Maximum Awards</b>	First and Second Year - \$750 Third and Fourth Year - \$1,300	First and Second Year - \$1,125 Third and Fourth Year - \$1,950	First and Second Year - \$750 Third and Fourth Year - \$1,300	First and Second Year - \$750 Third and Fourth Year - \$1,300
<b>Federal Supplemental Educational Opportunity Grants (SEOG)</b>	\$770,933,000	Program Proposed for elimination	\$770,933,000	\$770,933,000
<b>Federal Work- Study</b>	\$980,354,000	\$980,492,000	\$980,492,000	\$980,492,000
<b>Federal Perkins Loan Cancellations</b>	\$65,471,000	Program proposed for elimination	\$65,471,000	\$65,471,000
<b>Leveraging Educational Assistance Partnerships (LEAP) and SLEAP</b>	\$64,987,000	Program proposed for elimination	\$64,987,000	\$64,987,000
<b>Pell Grants</b>	Discretionary \$13,223,000,000 Mandatory 2,216,000,000 Prior year Shortfall -216,673,000 <i>Total Funding</i> \$15,222,327,000	Discretionary \$13,223,000,000 Mandatory 2,216,000,000 Prior year Shortfall -216,673,000 <i>Total Funding</i> \$15,222,327,000	Discretionary \$14,487,000,000 Mandatory 0 Prior year Shortfall -216,673,000 <i>Total Funding</i> \$14,270,327,000	Discretionary \$14,487,000,000 Mandatory 0 Prior year Shortfall -216,673,000 <i>Total Funding</i> \$14,270,327,000
<b>Pell Grants – Maximum Award</b>	\$4,310	\$4,600	\$4,700 <i>Additional increases to the maximum grant award are proposed as part of the House budget reconciliation bill.</i>	\$4,310
<b>Pell Grants – Year-Round Grants</b>	Under the current Higher Education Act (HEA), a student may receive two Pell Grants in the same award year if the student is enrolled full-time at a credit-hour school in a program that is 2 years	Proposes making Pell Grants available year-round for all students attending eligible 2- and 4-year degree-granting schools.	<i>A proposal to make Pell Grants available year-round for all students is included as part of the House budget reconciliation bill.</i>	

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	or longer and the student completes course work toward completion of an associate or bachelor degree that exceeds the requirements for a full academic year.			
<b>Pell Grants – Tuition Sensitivity Rule</b>	Under the current HEA, the amount of a Pell Grant that a student attending a low-cost school may receive is limited (known as the tuition sensitivity rule).	Proposes removing the tuition sensitivity rule.	<i>A proposal to eliminate the tuition sensitivity rule is included as part of the House budget reconciliation bill.</i>	<i>Proposal to eliminate the tuition sensitivity rule is included as part of the House budget reconciliation bill.</i>
<b>Federal Student Loans</b>				
<b>Annual Loan Limits</b>	Under the current HEA, the annual limit for both third- and fourth-year students is \$5,500, and the aggregate loan limit for undergraduate students is \$23,000.	Increases annual loan limits for juniors and seniors to \$7,500. Also increases aggregate loan limits for all students (amount not defined in the bill).	<i>A proposal to increase annual loan limits for third- and fourth year-students and aggregate loan limits included as part of the House budget reconciliation bill.</i>	
<b>Increased Loan Fee from Lenders</b>	Under the current HEA, lenders pay an origination fee of 0.5% on all consolidation loans.	Increases the lender paid origination fee on consolidation loans to 1%.	<i>A proposal to increase the lender-paid origination fee on all loans is included as part of the House budget reconciliation bill.</i>	<i>A proposal to increase the lender-paid origination fee on all loans is included as part of the Senate budget reconciliation bill.</i>
<b>Reduction of Lender Special Allowance Payments (SAP)</b>	Under the current HEA, lenders receive SAP on Stafford loan in repayment status in an amount equal to the Commercial Paper Rate +2.34%, and on PLUS loans in an amount equal to the Commercial Paper Rate +2.64%.	Reduces SAP paid on Stafford loans in repayment status to an amount equal to the Commercial Paper Rate +1.84% (50 basis point reduction).  Reduces SAP paid on PLUS loans to an amount equal to the Commercial Paper Rate + 1.84% (80 basis point reduction).	<i>A proposal to reduce lender special allowance payments is included as part of the House budget reconciliation bill.</i>	<i>A proposal to reduce lender special allowance payments is included as part of the Senate budget reconciliation bill.</i>
<b>Reduction of Lender Insurance Percentage</b>	Under the current HEA, lenders receive a 97% insurance rate on all defaulted claims. Exceptional Performers receive a 99% insurance rate on all defaulted claims.	Reduces the lender insurance percentage from 97% to 95%, and from 99% to 97% for Exceptional Performers.	<i>A proposal to reduce lender insurance rate and eliminate the Exceptional Performer program is included as part of the House budget reconciliation bill.</i>	<i>A proposal to reduce lender insurance rate and eliminate the Exceptional Performer program is included as part of the Senate budget reconciliation bill.</i>
<b>Reduction of Guarantor</b>	Under the current HEA, guarantors retain 23% of default collections.	Reduces the guarantor collection percentage from 23% to 16%.	<i>A proposal to reduce guarantor collection retention is included as</i>	<i>A proposal to reduce guarantor collection retention is included as part</i>

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Topic	FFY07 Appropriations	President Bush's FFY08 Budget Request	House Appropriations Bill (H.R. 3043)	Senate Appropriations Bill (S. 1710)
<b>Collection Retention</b>			<i>part of the House budget reconciliation bill.</i>	<i>of the Senate budget reconciliation bill.</i>
<b>Reduction of Account Maintenance Fee (AMF)</b>	Under the current HEA, guarantors are paid an AMF of 0.10% of the original principal amount of active loans guaranteed.	Moves the AMF to a unit cost (per loan) basis.	<i>A proposal to reduce the AMF is included as part of the House budget reconciliation bill.</i>	<i>A proposal to move the AMF to a per-loan basis is included as part of the Senate budget reconciliation bill.</i>
<b>Office of Postsecondary Education – Higher Education</b>				
<b>Advancing America through Foreign Language Partnerships</b>	\$0	\$24,000,000	\$0	\$12,000,000
<b>Developing Hispanic Serving Institutions (HSIs)</b>	\$94,914,000	\$94,911,000	\$99,500,000	\$99,914,000
<b>Federal TRIO Programs</b>	\$828,178,000	\$828,178,000	\$868,178,000	\$858,178,000
<b>Federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)</b>	\$303,423,000	\$303,423,000	\$323,423,000	\$313,423,000
<b>Scholarships - Robert C. Byrd Honors Scholarship Program</b>	\$40,590,000	Program proposed for elimination	\$40,590,000	\$41,000,000
<b>Scholarships – Javits Fellowships</b>	\$9,699,000	\$9,797,000	\$9,699,000	\$9,699,000
<b>Scholarships – Graduate Assistance in</b>	\$30,067,000	\$30,064,000	\$30,067,000	\$30,067,000

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and House and Senate Appropriation Bills**

<b>Topic</b>	<b>FFY07 Appropriations</b>	<b>President Bush's FFY08 Budget Request</b>	<b>House Appropriations Bill (H.R. 3043)</b>	<b>Senate Appropriations Bill (S. 1710)</b>
<b>Areas of National Need (GAANN)</b>				
<b>Scholarships – Thurgood Marshal Legal Educational Opportunity Program</b>	\$2,946,000	Program proposed for elimination	\$2,946,000	\$0 Program not eliminated, but the bill provides no funding for FFY08
<b>Strengthening Institutions</b>	\$79,535,000	\$79,535,000	\$79,535,000	\$79,535,000
<b>Strengthening Tribally Controlled Colleges and Universities</b>	\$23,570,000	\$18,570,000	\$24,475,000	\$24,475,000
<b>Strengthening Alaska Native and Native-Hawaiian-Serving Institutions</b>	\$11,785,000	Program proposed for elimination	\$11,785,000	\$12,500,000
<b>Strengthening Historically Black Colleges and Universities (HBCUs)</b>	\$238,095,000	\$238,095,000	\$349,500,000	\$238,095,000
<b>Strengthening Historically Black Graduate Institutions (HBGIs)</b>	\$57,915,000	\$57,915,000	\$82,915,000	\$57,915,000

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