BUDGET BULLETIN
SENATE COMMITTEE ON THE BUDGET
CHAIRMAN MIKE ENZI | @BUDGETBULLETIN

114th Congress, 2nd Session: No. 6 February 18, 2016

President's Budget: Education Proposals

by Senate Budget Committee Republican Staff

EDITOR'S NOTE: All years are fiscal years unless otherwise stated.

Overview

The budget contains an array of proposals in the education arena; this summary is chiefly focused on the mandatory spending and revenue proposals.

The Department of Education administers most federal education programs. Currently, the Education Department funds the vast majority of these programs, including all its elementary and secondary education programs, through annual discretionary appropriations. The department's chief mandatory programs are the direct student loan program, a portion of the Pell Grant program, and vocational rehabilitation state grants.

President Barack Obama's 2017 budget proposal creates five new mandatory spending programs, transforms the Perkins Loan program into a mandatory direct loan program, expands the mandatory portion of the Pell Grant program, and increases spending on mandatory teacher loan forgiveness.

Spending, or outlays, on the five new mandatory programs together would total $137.5 billion over the 10-year budget window. In addition, mandatory Pell spending would increase by $36 billion and teacher loan forgiveness by $1.7 billion, for a total of $175.2 billion in proposed new mandatory spending.

By contrast, the Perkins proposal would generate savings of $4.6 billion under existing Credit Reform Act accounting for direct loans. Furthermore, the president's budget produces savings of $48.9 billion by reforming student loan income-based repayment (IBR) terms. A detailed listing of the mandatory proposals in the budget appears in the next section.

On the discretionary side, the president proposes a $1.3 billion increase in total budget authority for 2017, which would raise the department's discretionary budget from $68.1 billion to $69.4 billion – a 1.9 percent increase. For Title I grants to local education agencies, the centerpiece of the recently reauthorized Elementary and Secondary Education Act, the president requests $15.4 billion in budget authority for 2017 – a $450 million increase.

Funding for special education grants to states would remain level, at $11.9 billion, as would discretionary Pell Grant funding, at $22.5 billion. (This total would be supplemented, under current law, by mandatory funds sufficient to provide an inflationary increase in the maximum Pell award next year, from $5,815 to $5,935.)

The 2017 discretionary budget request also includes an additional 269 full-time-equivalent employees (FTEs), which would bring the department's total number from 4,269 to 4,538 – a 5.9 percent increase. This increase includes an added 164 FTEs in the Office for Civil Rights, which would increase its staffing by 28 percent. The Office of Federal Student Aid would add 84 FTEs in order to enhance oversight of post-secondary-aid programs and contracts.

The president also proposes major changes to higher education tax benefits for individuals, with $46 billion of their aggregate $48.8 billion 10-year cost due to increased outlays (or spending) arising from refundable-tax-credit payments to individuals and families with no tax liability.

Mandatory Spending Proposals

Details on the president's mandatory education spending proposals follow:

- Preschool for All. Proposes a federal-state partnership to provide all low- and moderate-income four-year-old children with high-quality preschool. Allocations to states would be based on states' relative share of 4-year-olds from families at or below 200 percent of the federal poverty level. This proposal costs $66 billion over 10 years.

- Computer Science for All. Expands computer science instruction at the K-12 level by providing $4 billion in the 10-year budget window for teacher training, instructional materials, and regional partnerships. All grant funds would be awarded to states, in amounts based in part on their share of low-income schools. Required grant application components include plans to ensure universal access to computer science in high schools and to implement a rigorous STEM (science, technology, engineering, and math) curriculum in preschool through eighth grade.

- RESPECT: Best Job in the World. Creates a new grant program to help high-need schools recruit good teachers. Competitive grants would be awarded to state education agencies to make sub-grants to schools to improve teacher professional development opportunities and improve working conditions. This proposal costs $1 billion over the 10-year budget window.

- America's College Promise. Proposes a partnership with the states to make community college tuition-free, at a cost of $60.8 billion over 10 years. The proposal includes grant funding to four-year Historically Black Colleges and Universities, Hispanic Serving Institutions, and other minority-serving institutions to offer low-income students up to two years at no or significantly reduced tuition. Participating states would be required to spend more on higher education, allocate state funds to schools based on certain criteria, and undertake other reforms to encourage completion of at least two years of college.

- College Opportunity and Graduation Bonus Program. Provides bonus funding to colleges that enroll and graduate a significant number of low- and moderate-income students. An annual grant would be provided to eligible institutions equal to their number of on-time Pell graduates, multiplied by a tiered bonus amount per student, varying by institution type. This proposal costs $5.7 billion over 10 years.

- Permanently Index Pell Maximum to the Consumer Price Index (CPI). Under current law, the Pell Grant maximum is scheduled to increase in step with the CPI only through 2017. The budget proposes to use mandatory funds to permanently index the maximum grant to inflation. This proposal costs $33.3 billion over 10 years. A sufficient baseline of annual discretionary Pell spending would need to be maintained for these step-ups to occur.

- Pell Completion and Reform Policies. Proposes a package of changes for Pell, including the restoration of "year-round Pell" eligibility for full-time students. This would enable students who exhaust their annual Pell Grant award in the fall and spring semesters to receive an additional award if they attend summer school. Eligible students can receive up to 150 percent of their regular Pell Grant award. Also proposed is a $300 increase in the Pell maximum for students who take a full course load (15 credits per semester); reinstatement of access to Pell Grants for prisoners, strengthening of satisfactory academic progress requirements, and removal from the Free Application for Federal Student Aid of questions regarding savings, assets and net worth. The net combined mandatory cost is $2.6 billion over the 10-year budget window.

- Expand and Increase Teacher Loan Forgiveness. Consolidates two existing programs – TEACH grants and the existing teacher loan forgiveness program – into a single program that provides forgiveness of up to $25,000 for teachers serving in low-income schools, starting in 2021. Forgiveness is restructured such that an increasing share of one's student loan balance is forgiven each year, as tenure in an eligible position increases. This proposal costs $1.7 billion over the 10-year budget window.

- Reform Student Loan Income-Based Repayment Plans. Creates a single income-driven repayment option for new borrowers, modeled on the Revised Pay as You Earn (REPAYE) plan. Under this proposal, high-income, high-balance borrowers would pay more than under the current formula; public sector loan forgiveness would be capped at the aggregate borrowing limit for independent undergraduates; and negative amortization for low-income borrowers would be limited. This proposal saves $48.9 billion over 10 years.

- Reform and Expand the Perkins Loan Program. Revises and expands the Perkins Loan program, currently scheduled to sunset after 2017. Perkins would become a direct loan program administered by the government instead of post-secondary institutions, though institutions would retain some discretion over aid awards to students. Loan limits would be unchanged, but other terms and conditions would be the same as Unsubsidized Stafford Loans (including IBR eligibility), and annual Perkins origination volume would ramp up to $8.5 billion annually. Shifting Perkins to a direct loan program generates $4.6 billion in savings over 10 years, under Credit Reform Act scoring.

- Limit Federal Revenue to 85 Percent of Total Revenue of For-Profit Schools. Amends the "90-10" rule, which currently caps at 90 percent the portion of a for-profit school's tuition revenue that can be obtained from federal student aid. This proposal saves $14 million over 10 years by marginally reducing federal student loan program costs.

Education Revenue Proposals

Details on the president's education-related revenue proposals follow:

- Expand and Modify the American Opportunity Tax Credit (AOTC) and Repeal the Lifetime Learning Credit. The AOTC is a partially refundable tax credit of up to $2,500 annually to offset tuition expenses of undergraduates attending school at least half-time. The budget proposes to expand the AOTC by making it available to less-than-half-time students, making it available for a fifth year of education, increasing the refundable portion, and indexing both the refundable portion and the expense limits for inflation after 2017. The bulk of the cost in the 10-year budget window ($30.7 billion of $33.1 billion) is due to increased outlays, with the remainder reduced revenue.

- Exclude Pell Grant from gross income and the AOTC calculation. Allows individuals to claim an AOTC without reducing eligible expenses for claiming the credit by the amount of their Pell Grant. $15.4 billion of the $17.6 billion cost in the 10-year budget window is due to increased outlays, with the remainder reduced revenue.

- Repeal the student loan interest deduction (SLID) and exclude student loan debts from income tax. These proposals are submitted as a package, with a net savings of $1.5 billion over the 10-year budget window. The expansion of income-driven repayment (IDR) and the AOTC is provided as justification for repeal of the SLID for new students. And that repeal is proposed as an offset for excluding from gross income the forgiven or discharged portion of a federal student loan when the loan is forgiven or discharged as part of a Department of Education program. This includes loans forgiven after completion of IDR periods and loans forgiven through the "defense to repayment" process.

- Modify reporting of scholarships on Form 1098-T. Requires any entity issuing a scholarship or grant in excess of $500 (indexed for inflation after 2017) that is not processed or administered by an institution of higher education to report the scholarship or grant on Form 1098-T. Extending this reporting requirement to non-postsecondary institutions saves $353 million over the 10-year budget window.

- Community College Partnership Tax Credit. Creates a new tax credit for hiring graduates from community and technical colleges. $500 million in tax credit authority for each year from 2017 through 2021 is allocated annually to the states on a per capita basis. State agencies competitively award the credit authority to qualifying community and technical college consortia, and certify employer participation and eligibility to claim the credit. Participating employers must work to strengthen community college programs. This proposal costs $2.2 billion over 10 years.