



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

July 24, 2009

**H.R. 3221  
Student Aid and Fiscal Responsibility Act of 2009**

*As ordered reported by the House Committee on Education and Labor on July 21, 2009*

**SUMMARY**

H.R. 3221 would amend the Higher Education Act of 1965, which authorizes most federal postsecondary education programs. It would prohibit new federally guaranteed loans from being made under the Federal Family Education Loan (FFEL) Program and would increase direct spending for the Federal Pell Grant Program and other programs.

The elimination of guaranteed student loans would lead to a comparable increase in direct lending by the government. The estimated subsidy cost shown in the budget is lower for the direct student loan program than for the FFEL program. Thus, enacting the bill would yield net budgetary savings for shifting new lending from the guaranteed loan program to the direct loan program.

On balance, CBO estimates that enacting H.R. 3221 would reduce direct spending by \$13.3 billion over the 2009-2013 period and \$7.8 billion over the 2009-2019 period. Assuming appropriation of the necessary amounts, implementing the bill would increase discretionary spending by at least \$13.5 billion over the 2009-2019 period. (That estimate reflects the bulk of the likely discretionary costs under H.R. 3221; but CBO has not completed a comprehensive estimate of all effects that would be subject to appropriation action.) Enacting H.R. 3221 would not affect revenues.

H.R. 3221 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 3221 on spending is shown in Table 1. The costs of this legislation fall within budget functions 500 (education, training, employment, and social services) and 700 (veterans benefits and services).

**TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 3221, THE STUDENT AID AND FISCAL RESPONSIBILITY ACT OF 2009**

|                                                                 | By Fiscal Year, in Billions of Dollars |      |       |       |      |      |      |      |      |      |      |           |           |
|-----------------------------------------------------------------|----------------------------------------|------|-------|-------|------|------|------|------|------|------|------|-----------|-----------|
|                                                                 | 2009                                   | 2010 | 2011  | 2012  | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2009-2014 | 2009-2019 |
| <b>CHANGES IN DIRECT SPENDING</b>                               |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| <b>Federal Student Loan Programs<sup>a</sup></b>                |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| Estimated Budget Authority                                      | -0.2                                   | -6.1 | -14.1 | -12.2 | -8.7 | -8.4 | -8.0 | -7.9 | -7.6 | -7.8 | -8.1 | -49.8     | -89.2     |
| Estimated Outlays                                               | -0.3                                   | -3.8 | -9.6  | -11.3 | -8.2 | -7.5 | -7.0 | -6.8 | -6.7 | -6.7 | -6.9 | -40.7     | -74.8     |
| <b>Federal Pell Grant Program</b>                               |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| Estimated Budget Authority                                      | 0                                      | 0.1  | 1.9   | 0.8   | 6.7  | 3.6  | 4.0  | 5.2  | 6.4  | 8.1  | 9.9  | 13.0      | 46.7      |
| Estimated Outlays                                               | 0                                      | *    | 0.6   | 1.6   | 2.4  | 5.8  | 3.7  | 4.3  | 5.5  | 6.9  | 8.6  | 10.4      | 39.4      |
| <b>Other Programs</b>                                           |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| Estimated Budget Authority                                      | 0                                      | 4.7  | 7.3   | 2.8   | 2.8  | 2.7  | 2.1  | 2.1  | 2.2  | 1.2  | 1.2  | 20.3      | 29.0      |
| Estimated Outlays                                               | 0                                      | 0.6  | 3.7   | 5.0   | 4.2  | 3.4  | 2.6  | 2.3  | 2.2  | 2.1  | 1.5  | 16.9      | 27.6      |
| <b>Total Changes</b>                                            |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| Estimated Budget Authority                                      | -0.2                                   | -1.3 | -4.9  | -8.7  | 0.7  | -2.2 | -1.8 | -0.5 | 1.0  | 1.5  | 3.0  | -16.5     | -13.4     |
| Estimated Outlays                                               | -0.3                                   | -3.1 | -5.3  | -4.6  | -1.7 | 1.6  | -0.7 | -0.2 | 1.0  | 2.3  | 3.1  | -13.3     | -7.8      |
| <b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION<sup>b</sup></b> |                                        |      |       |       |      |      |      |      |      |      |      |           |           |
| Estimated Authorization Level                                   | 0                                      | 0.1  | 0.8   | 0.9   | 1.1  | 1.3  | 1.5  | 1.8  | 2.1  | 2.4  | 2.6  | 4.3       | 14.8      |
| Estimated Outlays                                               | 0                                      | 0.1  | 0.4   | 0.9   | 1.0  | 1.2  | 1.5  | 1.7  | 2.0  | 2.2  | 2.5  | 3.6       | 13.5      |

Notes: Components may not add to totals because of rounding; \* = less than \$50 million.

a. Including the Federal Perkins Loan Program.

b. CBO has not completed an estimate of all discretionary spending under H.R. 3221; the estimates shown here represent the bulk of the bill's discretionary costs.

## **BASIS OF ESTIMATE**

As required under the Federal Credit Reform Act of 1990 (FCRA), most of the costs of the federal student loan programs are estimated on a net-present-value basis. Under credit reform, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on U.S. Treasury borrowing. (For example, the cash flow for a one-year loan is discounted using the Treasury rate for a one-year zero-coupon note.) The costs for the federal administration of student loans are estimated on a cash basis. For this estimate, CBO assumes the bill will be enacted by October 1, 2009, and that the necessary funds will be appropriated for all discretionary programs.

### **Direct Spending**

H.R. 3221 would amend the federal student loan programs (including the Federal Perkins Loan Program) and the Federal Pell Grant Program and would amend or create several other programs. Those changes would decrease net direct spending by \$13.3 billion over the 2009-2014 period and \$7.8 billion over the 2009-2019 period.

**Federal Student Loan Programs.** H.R. 3221 would make several changes to the federal student loan programs, including the Federal Perkins Loan Program. As shown in Table 2, CBO estimates that, on net, those changes would reduce federal costs by \$40.7 billion over five years and \$74.8 billion over 10 years. The major changes that affect direct spending include:

- Eliminating new guaranteed student loans under the FFEL program and thus shifting those loans to the William D. Ford Federal Direct Student Loan program—saving an estimated \$86.8 billion over the 2010-2019 period;
- Reducing interest rates on subsidized student loans to undergraduate borrowers—at a cost of \$3.2 billion over the 2012-2019 period;
- Interactions between the FFEL and direct loan program and various other program changes—resulting in a net cost of \$7.5 billion over the 2009-2019 period; and
- Speeding up the phase-out of the current Perkins loan program and establishing a new Perkins loan program in its place—for a net cost of \$1.3 billion over the 2010-2019 period.

**TABLE 2. SUMMARY OF CHANGES IN THE FEDERAL STUDENT LOAN PROGRAMS**

|                                           | By Fiscal Year, in Billions of Dollars |      |       |       |       |       |       |       |       |       |       |           |           |  |
|-------------------------------------------|----------------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|-----------|--|
|                                           | 2009                                   | 2010 | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2009-2014 | 2009-2019 |  |
| <b>CHANGES IN DIRECT SPENDING</b>         |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Eliminate new lending in the FFEL Program |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | 0                                      | -4.8 | -13.3 | -12.2 | -11.2 | -10.5 | -10.2 | -10.2 | -10.1 | -10.3 | -10.7 | -52.1     | -103.5    |  |
| Estimated Outlays                         | 0                                      | -2.6 | -8.9  | -11.0 | -10.0 | -9.4  | -9.0  | -8.9  | -8.9  | -9.0  | -9.3  | -41.8     | -86.8     |  |
| Reduce borrower interest rates            |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | 0                                      | 0    | 0     | *     | 0.5   | 0.5   | 0.5   | 0.5   | 0.6   | 0.6   | 0.6   | 1.1       | 3.9       |  |
| Estimated Outlays                         | 0                                      | 0    | 0     | *     | 0.3   | 0.5   | 0.5   | 0.5   | 0.5   | 0.5   | 0.5   | 0.8       | 3.2       |  |
| Interactions and other changes            |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | -0.2                                   | *    | *     | 0.6   | 1.2   | 1.2   | 1.2   | 1.2   | 1.3   | 1.3   | 1.4   | 2.7       | 9.1       |  |
| Estimated Outlays                         | -0.3                                   | *    | *     | 0.4   | 0.8   | 1.0   | 1.0   | 1.1   | 1.1   | 1.1   | 1.2   | 2.0       | 7.5       |  |
| Subtotal, FFEL and Direct Loans           |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | -0.2                                   | -4.8 | -13.3 | -11.6 | -9.5  | -8.8  | -8.5  | -8.4  | -8.3  | -8.4  | -8.7  | -48.3     | -90.6     |  |
| Estimated Outlays                         | -0.3                                   | -2.6 | -8.9  | -10.6 | -8.9  | -7.9  | -7.5  | -7.4  | -7.3  | -7.3  | -7.6  | -39.0     | -76.1     |  |
| Federal Perkins Loans                     |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | 0                                      | -1.3 | -0.8  | -0.6  | 0.7   | 0.4   | 0.5   | 0.6   | 0.6   | 0.6   | 0.6   | -1.6      | 1.4       |  |
| Estimated Outlays                         | 0                                      | -1.2 | -0.8  | -0.7  | 0.7   | 0.3   | 0.5   | 0.5   | 0.6   | 0.6   | 0.6   | -1.6      | 1.3       |  |
| Total, All Federal Student Loans          |                                        |      |       |       |       |       |       |       |       |       |       |           |           |  |
| Estimated Budget Authority                | -0.2                                   | -6.1 | -14.1 | -12.2 | -8.7  | -8.4  | -8.0  | -7.9  | -7.6  | -7.8  | -8.1  | -49.8     | -89.2     |  |
| Estimated Outlays                         | -0.3                                   | -3.8 | -9.6  | -11.3 | -8.2  | -7.5  | -7.0  | -6.8  | -6.7  | -6.7  | -6.9  | -40.7     | -74.8     |  |

Notes: Components may not add to totals because of rounding; \* = between -\$50 million and \$50 million.

*Eliminate new lending in the FFEL Program.* Under current law, the federal government provides federal loans to borrowers through two separate programs. In the FFEL Program (guaranteed loans), private lenders originate loans to postsecondary students and the federal government makes payments to these lenders, guarantees them against significant loss in the case of default, and provides funds to guaranty agencies to help administer those loans. In the direct loan program, the federal government serves as the lender.

Beginning in July 2010, the bill would prohibit new guaranteed loans under the FFEL Program; which under current law, CBO estimates will account for about \$705 billion in loans—70 percent of all loan volume—over the next 10 years. Under the prohibition in the bill, CBO expects that volume would shift to the direct loan program. CBO estimates that the subsidy rates for direct loans are, on average, about 10 to 20 percentage points

lower than for guaranteed loans. (The subsidy rate reflects the present value cost for each dollar the government loans or guarantees.) Because of that difference in subsidy rates, CBO estimates that prohibiting new guaranteed loans—with the replacement of those loans by direct student loans—would lower federal budget costs by \$41.8 billion over 2010-2014 period and by \$86.8 billion over the 2010-2019 period. Consistent with the accounting required under FCRA, most of those estimated savings represent the changes in present-value estimates for the switch from guarantees to direct loans for each year over that period.

About \$7 billion of the projected savings over the 2010-2019 period reflect forgone administrative costs in the FFEL Program. The increased loan volume in the direct loan program would require additional funds for administering and servicing those loans, but those costs are classified as discretionary spending and discussed below under the heading “Spending Subject to Appropriation.”

*Reduce Borrower Interest Rates.* The bill would change the interest rate on subsidized loans for undergraduate borrowers beginning in July 2012. Under current law, the borrower rate on those student loans is scheduled to increase from 3.4 percent to 6.8 percent on July 1, 2012. Under the bill, the borrower rate would switch to a variable-rate formula. The rate charged would be equal to the 91-day Treasury bill rate (calculated as if it were equivalent to a bond) plus 2.5 percentage points, and would be adjusted annually each July. Because the rate would be capped at 6.8 percent, borrowers would never pay an interest rate higher than the 6.8 percent they would pay under current law, but would have some probability of paying a lower interest rate, depending on future Treasury rates.

Taking into account the one-sided aspect of the new interest rate calculation and the historical volatility of rates on short-term Treasury borrowing, CBO estimates that changing the interest rate to a capped variable rate would cost \$0.8 billion over the 2010-2014 period and \$3.2 billion over the 2010-2019 period.

*Interactions and Other Changes.* Other changes to the student loan programs and interactions between different sections of the bill would reduce net savings by \$7.5 billion over the 2009-2019 period. Those changes are detailed below:

- CBO estimated the effects of each section of the bill independently of all other sections and then calculated the interaction between provisions for the bill as a whole. For H.R. 3221, CBO estimates that the interactive effects would reduce net savings by \$7.6 billion over the 2009-2019 period.

- Beginning July 1, 2010, borrowers who currently have a guaranteed consolidation loan but do not also have a direct consolidation loan would be able to refinance their guaranteed consolidation loan into a direct loan. Under current law, consolidation loans are not permitted to be refinanced. Because of the difference in subsidy rates, CBO estimates this change would lower direct spending by an estimated \$250 million in 2009.
- Beginning in July 2011, the bill would:
  1. Exclude the assets and most untaxed income of both students and parents currently included in calculating eligibility for need-based aid. CBO estimates this would cost \$120 million over the 2011-2019 period; and
  2. Allow student who have been convicted of possession of illegal drug while receiving financial aid to receive student aid. CBO estimates this would cost \$24 million over the 2011-2019 period. Both of these provisions would also affect the Pell grant program, and those costs are discussed below.
- H.R. 3221 would forgive federal loans for members of the uniformed services who do not receive academic credit because they must withdraw from school for reasons of military service. CBO estimates this provision would increase direct spending by \$21 million over the 2010-2019 period.
- In October 2009, for loans first originated in January 2000 and after, the bill would allow lenders to make a one-time, permanent choice to change the underlying rate on which the yields are based for both outstanding and new guaranteed student loans. Under current law, the yield rates are based on the bond equivalency rate of the three-month Commercial Paper rate with various add-ons depending on the type of loan and the loan status. The bill would allow lenders, within a specified period of time, to change that rate to the one-month London Interbank Offered Rate (LIBOR), calculated as if it were equivalent to a bond. CBO estimates that this change would have a negligible impact on spending.

*Perkins Loan Program.* H.R. 3221 also would amend the current Federal Perkins Loan Program, under which some 1,700 colleges and universities use revolving funds to make student loans. (Schools loan about \$1 billion a year to students from those revolving funds.) Over 80 percent of the capital in those revolving funds came from the federal government. Under current law in October 2012, schools must begin returning the government's share of those funds to the Treasury. Under H.R. 3221, schools would begin the return of federal capital in July 2010. The bill would allow schools to retain

amounts for administrative expenses and other fees, thus slightly reducing expected receipts.

The bill would establish a new Federal Perkins Loan Program in July 2010; the interest rate would be 5 percent and students would face the same terms and conditions as with unsubsidized direct loans under the direct loan program. (Borrowing limits would be similar to the existing Perkins Loan Program.) The new loans would be disbursed through school financial aid offices to borrowers who met the new financial need requirements. A maximum of \$6 billion in new loans could be made each year.

CBO estimates that, on net, these changes to the Perkins Loan Program would reduce direct spending by \$1.6 billion over the 2010-2014 and increase direct spending by \$1.3 billion over the 2010-2019 period.

**Federal Pell Grant Program.** H.R. 3221 also would amend the current structure of the Federal Pell Grant Program and formulas for determining eligibility under that program. As shown in Table 3, CBO estimates these changes would increase direct spending by \$10.4 billion over the 2010-2014 period and by \$39.4 billion over the 2010-2019 period. (Some of these changes also would affect discretionary spending in the Pell grant program. Those changes are discussed below under “Spending Subject to Appropriation.”)

**TABLE 3. ESTIMATED MANDATORY SPENDING FOR PELL GRANTS**

|                                          | By Fiscal Year, in Billions of Dollars |      |      |      |      |      |      |      |      |      |      |      | 2009-<br>2014 | 2009-<br>2019 |
|------------------------------------------|----------------------------------------|------|------|------|------|------|------|------|------|------|------|------|---------------|---------------|
|                                          | 2009                                   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |      |               |               |
| <b>CHANGES IN DIRECT SPENDING</b>        |                                        |      |      |      |      |      |      |      |      |      |      |      |               |               |
| <b>Amend the Current Mandatory Award</b> |                                        |      |      |      |      |      |      |      |      |      |      |      |               |               |
| Estimated Budget Authority               | 0                                      | 0.1  | 1.9  | 0.7  | 6.7  | 3.5  | 3.9  | 5.1  | 6.3  | 7.9  | 9.7  | 13.0 | 45.8          |               |
| Estimated Outlays                        | 0                                      | *    | 0.6  | 1.6  | 2.4  | 5.8  | 3.6  | 4.2  | 5.4  | 6.7  | 8.4  | 10.3 | 38.7          |               |
| <b>Other Changes</b>                     |                                        |      |      |      |      |      |      |      |      |      |      |      |               |               |
| Estimated Budget Authority               | 0                                      | *    | *    | *    | *    | *    | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.1  | 0.9           |               |
| Estimated Outlays                        | 0                                      | *    | *    | *    | *    | *    | 0.1  | 0.1  | 0.1  | 0.2  | 0.2  | *    | 0.7           |               |
| <b>Total Changes</b>                     |                                        |      |      |      |      |      |      |      |      |      |      |      |               |               |
| Estimated Budget Authority               | 0                                      | 0.1  | 1.9  | 0.8  | 6.7  | 3.6  | 4.0  | 5.2  | 6.4  | 8.1  | 9.9  | 13.0 | 46.7          |               |
| Estimated Outlays                        | 0                                      | *    | 0.6  | 1.6  | 2.4  | 5.8  | 3.7  | 4.3  | 5.5  | 6.9  | 8.6  | 10.4 | 39.4          |               |

Notes: Components may not add to totals because of rounding; \* = between -\$50 million and \$50 million.

*Mandatory Spending for Pell grants.* Under current law, the Pell grant program is funded from both discretionary and mandatory sources. An annual appropriation sets the maximum award level for which students are eligible and a mandatory account provides additional funding to students eligible for the discretionary program. The amount of the additional mandatory award is determined by the amount of budget authority directly appropriated in the Higher Education Act. In 2009, CBO estimates that discretionary costs for the Pell grant program will be \$22.8 billion with additional mandatory spending equal to \$2.7 billion.

H.R. 3221 would permanently amend the calculation of mandatory funding for Pell grants beginning in fiscal year 2011. For each year, the bill would appropriate such sums as may be necessary to increase the mandatory award from the previous year. The increase in the mandatory award would be determined by inflating the previous year's total award level by the change in the Consumer Price Index plus one percentage point and then subtracting out the previous year's discretionary award level or \$4,860 (whichever is greater). The base level of the award would continue to be set in an annual appropriations act. For 2010, the mandatory award level is set at \$690.

As shown in Table 4, starting with the most recent appropriations act (for the 2009-1010 academic year) which specifies an award level of \$4,860, CBO estimates the mandatory award would grow from \$690 in 2010 to \$2,040 in 2019. If an appropriations act were to set the discretionary maximum award at a level greater than \$4,860, it would raise the amount of the mandatory award in each successive year, and increase overall costs.

**TABLE 4. ESTIMATED MAXIMUM AWARD LEVELS FOR PELL GRANTS UNDER H.R. 3221**

|                                               | By Fiscal Year, in Dollars |       |       |       |       |       |       |       |       |       |       |
|-----------------------------------------------|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                               | 2009                       | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
| <b>MAXIMUM AWARD LEVEL</b>                    |                            |       |       |       |       |       |       |       |       |       |       |
| Discretionary award level                     | 4,860                      | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 |
| Additional mandatory award level <sup>a</sup> | 490                        | 690   | 825   | 950   | 1,065 | 1,180 | 1,315 | 1,475 | 1,660 | 1,850 | 2,040 |
| Total                                         | 5,350                      | 5,550 | 5,865 | 5,810 | 5,925 | 6,040 | 6,175 | 6,335 | 6,520 | 6,710 | 6,900 |

a. The mandatory add-on of \$690 for fiscal year 2010 is stated in current law.

*Other Changes to Pell grants.* In addition, CBO estimates that changes to the eligibility and needs analysis formulas (described above) and to programs whose funding is tied to Pell grants would, on net, increase direct spending by \$0.7 billion over the 2010-2019 period.



**Other Federal Programs.** H.R. 3221 would amend or create several mandatory grant programs that would provide education-related funding to a wide variety of entities. As shown in Table 5, CBO estimates that these programs would increase direct spending by \$16.9 billion over the 2010-2014 period and by \$27.6 billion over the 2010-2019 period. In particular:

- H.R. 3221 would appropriate \$8.0 billion for the Early Learning Challenge Fund—\$1.0 billion a year for 2010 through 2017. Based on the spending patterns of similar programs, CBO estimates this provision would increase direct spending by \$7.9 billion over the 2010-2019 period.
- For fiscal years 2010 through 2019, H.R. 3221 would appropriate a total of \$7.0 billion for grants to states and institutions of higher education to undertake systemic reform of community colleges. CBO estimates this provision would increase direct spending by \$6.1 billion over the next 10 years.
- The bill would appropriate \$2.5 billion in 2011 to renovate and modernize facilities for community colleges. Based on the spending patterns of similar programs, CBO estimates this provision would increase direct spending by \$2.5 billion over the over the 2011-2019 period.
- The bill would appropriate \$2.1 billion in 2010 and 2011 to renovate and modernize facilities for elementary and secondary schools (K-12). Based on the spending patterns of similar programs, CBO estimates this provision would increase direct spending by \$4.1 billion over the 2101-2019 period.
- The bill would appropriate \$3.0 billion for the College Access and Completion Innovation Fund. Based on the spending patterns of similar programs, CBO estimates these provisions would increase direct spending by \$3.0 billion over the 2010-2019 period.
- H.R. 3221 would extend through 2019 the current direct appropriation of \$255 million per year for grants to Historically Black Colleges and Universities and Minority Serving Institutions that expires in 2009 under current law. CBO estimates this provision would increase direct spending by \$2.2 billion over the next 10 years.

In addition, the bill would amend an existing program for providing education benefits to veterans (as described below).

**TABLE 5. OTHER MANDATORY SPENDING PROGRAMS UNDER H.R. 3221**

|                                                            | By Fiscal Year, in Billions of Dollars |      |      |      |      |      |      |      |      |      |      | 2009- | 2009- |
|------------------------------------------------------------|----------------------------------------|------|------|------|------|------|------|------|------|------|------|-------|-------|
|                                                            | 2009                                   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2014  | 2019  |
| <b>CHANGES IN DIRECT SPENDING</b>                          |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Early Childhood Education                                  | 0                                      | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 0    | 0    | 5.0   | 8.0   |
| Budget Authority                                           | 0                                      | 0.1  | 0.7  | 0.9  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  | 0.3  | 3.7   | 7.9   |
| Estimated Outlays                                          |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Community College Reform                                   |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Budget Authority                                           | 0                                      | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 3.6   | 7.0   |
| Estimated Outlays                                          | 0                                      | *    | 0.5  | 0.6  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 2.6   | 6.1   |
| Community College Grants                                   |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Budget Authority                                           | 0                                      | 0    | 2.5  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 2.5   | 2.5   |
| Estimated Outlays                                          | 0                                      | 0    | 0.6  | 1.0  | 0.5  | 0.4  | 0    | 0    | 0    | 0    | 0    | 2.5   | 2.5   |
| Modernization and Renovation (K-12)                        |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Budget Authority                                           | 0                                      | 2.1  | 2.1  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 4.1   | 4.1   |
| Estimated Outlays                                          | 0                                      | 0.3  | 1.1  | 1.5  | 0.9  | 0.2  | *    | 0    | 0    | 0    | 0    | 4.1   | 4.1   |
| College Access Completion<br>Innovation Fund               |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Budget Authority                                           | 0                                      | 0.6  | 0.6  | 0.6  | 0.6  | 0.6  | 0    | 0    | 0    | 0    | 0    | 3.0   | 3.0   |
| Estimated Outlays                                          | 0                                      | 0.1  | 0.5  | 0.6  | 0.6  | 0.6  | 0.5  | 0.1  | *    | *    | 0    | 2.4   | 3.0   |
| HBCU and MSI Funding                                       |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Budget Authority                                           | 0                                      | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 1.3   | 2.6   |
| Estimated Outlays                                          | 0                                      | *    | 0.1  | 0.2  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.9   | 2.2   |
| Supplemental Education Grants<br>for Veterans <sup>a</sup> |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Estimated Budget Authority                                 | 0                                      | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.8   | 1.9   |
| Estimated Outlays                                          | 0                                      | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  | 0.8   | 1.9   |
| Cooperative Education                                      |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Estimated Budget Authority                                 | 0                                      | *    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | *     | *     |
| Estimated Outlays                                          | 0                                      | *    | *    | *    | *    | 0    | 0    | 0    | 0    | 0    | 0    | *     | *     |
| Total                                                      |                                        |      |      |      |      |      |      |      |      |      |      |       |       |
| Estimated Budget Authority                                 | 0                                      | 4.7  | 7.3  | 2.8  | 2.8  | 2.7  | 2.1  | 2.1  | 2.2  | 1.2  | 1.2  | 20.3  | 29.0  |
| Estimated Outlays                                          | 0                                      | 0.6  | 3.7  | 5.0  | 4.2  | 3.4  | 2.6  | 2.3  | 2.2  | 2.1  | 1.5  | 16.9  | 27.6  |

Notes: Components may not add to totals because of rounding; \* = less than \$50 million; HBCU = Historically Black Colleges and Universities; MSI = Minority Serving Institutions.

a. Funding for Supplemental Education Grants for Veterans affects direct spending at both the Departments of Education and Veterans Affairs. The effects on outlays for each department is as follows:

|                                | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2009- | 2009- |
|--------------------------------|------|------|------|------|------|------|------|------|------|------|------|-------|-------|
|                                |      |      |      |      |      |      |      |      |      |      |      | 2014  | 2019  |
| Department of Education        | 0    | 0.1  | 0.2  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.3  | 0.4  | 0.4  | 1.2   | 2.9   |
| Department of Veterans Affairs | 0    | *    | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.4  | -1.1  |

**Supplemental Education Grants for Veterans.** Section 106 would require the Department of Education to create a supplemental grant program for certain veterans who are eligible for education benefits under the Post-9/11 GI Bill. Under the new GI Bill, the highest amount of in-state tuition charged at a public institution in a given state constitutes the maximum tuition benefit that the Department of Veterans Affairs (VA) can pay in that state. In addition, VA will pay for student fees up to the highest amount charged in that state. Under the proposed grant program, supplemental funding would be available to veterans attending private colleges and universities in states where the benefit amount for tuition is low compared to other states. The dollar amount of each grant would equal the difference between the highest fees charged at a public institution in the state where the individual is attending school and the fees charged at the private institution the individual is attending.

Based on information from VA, CBO estimates that approximately 25,000 veterans would be eligible for those grants each year and that the average value of the grants would grow from about \$9,000 in 2010 to \$14,000 in 2019. Thus, CBO estimates that the grant program would increase direct spending by the Department of Education by \$2.9 billion over the 2010-2019 period.

That increase in spending would be partially offset by reduced spending by VA. Under the Post-9/11 GI Bill, veterans attending schools participating in the Yellow Ribbon Program are eligible to receive an additional contribution from VA (which is matched by the school) to help cover the cost of tuition and fees at more expensive schools. The grant program in the bill would cover much of the cost of high tuition and fees for eligible veterans at private institutions, decreasing the amount that VA would pay as a matching contribution for the Yellow Ribbon Program. Under the bill, CBO estimates that direct spending by VA would decrease by \$1.1 billion over the 2010-2019 period. On net, CBO estimates that this proposal would increase direct spending for veterans education benefits by \$1.9 billion over the 2010-2019 period.

### **Spending Subject to Appropriation**

H.R. 3221 also would make several changes to discretionary spending. CBO has not completed an estimate of all the effects on discretionary spending under the bill, but we have estimated the bulk of such costs. The biggest increases in discretionary spending would stem from changes to the direct loan and Pell grant programs.

**Administration of Direct Loans.** As mentioned above, most of the costs for administering loans in the FFEL Program are mandatory, while administrative costs in the direct loan program are mostly discretionary. Based on information about contracts

for administering the FFEL program and consistent with projected loan volume, CBO estimates that eliminating new lending in the FFEL program and shifting the projected volume to the direct loan program would increase discretionary spending for administrative costs by \$7.2 billion over the 2010-2019 period.

**Federal Pell Grant Program.** In 2009, CBO estimates that the discretionary costs for Pell grants will total about \$22.8 billion. CBO estimates that implementing H.R. 3221 would increase discretionary spending for the Pell grants by \$6.3 billion over the 2010-2019 period, subject to appropriation of the necessary amounts. Those increased costs stem mostly from changes made to the needs analysis formulas and eligibility calculations, which are described in greater detail under the subheading “Federal Student Loan Programs” in the “Direct Spending” section.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 3221 contains no intergovernmental or private-sector mandates as defined in UMRA. Institutions of higher education and public school systems would benefit from grants authorized under the bill. Any costs or requirements associated with those grant programs would be incurred voluntarily as conditions of federal assistance.

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