



Association of American Universities

1200 New York Avenue, NW, Suite 550 Washington, DC 20005 202.408.7500

An association of 62 leading research universities in the United States and Canada

FY2006 Department of Education Appropriations

Updated April 5, 2005

Bill #:
House Report #:
Senate Report #:
Conference Report #:
Public Law #:

Administration's Request

Department of Education FY06 Budget Summary

Student Financial Aid Overview: The President's FY06 budget would provide \$78.4 billion for federal student financial aid, excluding the consolidation of existing student loans. This represents a \$5.2 billion or 7.1-percent increase over FY05. The budget notes that in 2006, student loan programs will provide approximately \$62 billion in new loans. The budget would eliminate several student aid programs, including GEAR UP, TRIO, and Perkins Loans, and would create a new Presidential Math and Science program to encourage Pell-eligible students to study math and science. The budget includes several proposals in connection with the reauthorization of the Higher Education Act (HEA), including many that would achieve savings in the student loan programs that could be used to pay for increases in the Pell Grant program.

Specifically, the President's FY06 budget request proposes the following for student aid programs:

- **Pell Grants:** The budget would provide \$17.952 billion for the program (\$13.232 billion in discretionary funding and \$4.720 in mandatory funding), an increase of \$5.587 billion, to serve 5.47 million students. The Administration proposes to use mandatory funding by achieving savings in federal student loan programs to increase the maximum Pell award by \$100 to \$4,150 and to pay off the program funding shortfall of \$4.3 billion (see section below that describes the Administration's HEA proposals). The budget also proposes that the maximum Pell award be increased by \$100 a year for the next five years to a total of \$4,550. Additionally, the budget proposes to establish a \$33 million pilot within the Pell program to provide *up to* an additional \$1,000 to an estimated 36,000 students who complete the State Scholars curriculum in high school.

- **Campus-Based Aid:** Under the FY06 budget, overall funding for the three Campus-Based Aid programs would be reduced by \$66.1 million from FY05 for a total of \$1.769 billion and the Perkins Loan program would be eliminated. The budget proposes to phase in revised allocation formulas for the SEOG and Work-Study programs that would be based more on student need rather than on institutions' history of participation in the programs. The budget requests for the individual programs are:

- **Perkins Loans:** The budget would eliminate the program and recall the federal portion of revolving funds held by participating institutions. The program received no funding for capital contributions in FY05 and \$98.8 million was appropriated in FY04. The budget would provide no funding for loan cancellations (\$66.1 million in FY05). The budget states: "With the number of Perkins Loan institutions declining...and with only 3 percent of students enrolled in postsecondary education receiving Perkins Loans each year, the Administration believes the federal share of funds held by this small group of institutions would better serve students if invested in Pell Grants, which serve all eligible students regardless of institution. Last year, the PART [the Administration's Program Assessment Rating Tool] found the Perkins Loan program to be duplicative of the larger guaranteed and direct student loan programs. Proposed increases to student loan limits in these programs and the continuation of very low interest rates would significantly offset the impact of eliminating the Perkins Loan program. Under the Administration's proposal, institutions would retain their own contributions into Perkins Loan revolving funds."
- **Supplemental Educational Opportunities Grants (SEOG):** The budget would level fund the program at \$778.7 million, providing aid to 1.29 million students with an average award of \$763. The Department's budget document states: "The Administration is proposing to modify the current statutory allocation formula, which distributes a disproportionate share of funding to schools that have participated in the program the longest, regardless of whether these longstanding participants have a higher proportion of needy students than other institutions."
- **Federal Work-Study:** The budget would level fund the program at \$990.3 million, which would provide aid to 819,000 students with an average award of \$1,446. As it requested last year, the Administration proposes to replace the 7-percent community service requirement with a separate set-aside for community service, equal to 20 percent of the Work-Study appropriation. Institutions would apply for these funds separate from their allocation. The PART found that while institutions placed an average of 15 percent of their students in community service jobs, many institutions did not meet even the 7-percent requirement.

Higher Education Programs: The FY06 budget would provide \$1.2 billion for higher education programs, which include graduate and international education and institutional aid programs.

- **GAANN:** The budget would level-fund the Graduate Assistance in Areas of National Need (GAANN) program at \$30.4 million. The budget request would support 721 fellowships, including 488 new fellowships. The Department's budget document states: "This program was rated Results Not Demonstrated by the PART process, but more recent and complete performance data show that the program is on track to achieve its goals."

- **Javits Fellowships:** The budget would level-fund the Jacob K. Javits Fellowship program at \$9.8 million. The request would support 231 fellowships, including 51 new fellows. The Department's budget document states: "The program received an Adequate rating under the PART process thanks to data showing that its performance exceeded targets and that the program is on track to achieve program goals related to time-to-degree completion and graduation rates."
- **International Education Programs:** The budget would level-fund international education programs at \$106.8 million, including Domestic programs at \$92.5 million; Overseas programs at \$12.7 million; and the Institute for International Public Policy at \$1.6 million. The budget would fund approximately 475 grants to institutions of higher education and support more than 1,300 individuals through fellowships and projects.
- **TRIO Programs:** The budget would cut funding for the TRIO programs by \$467.1 million, or 56 percent, from the FY05 level of \$836.5 million. The programs would be funded in FY06 at \$369.4 million. The Department's budget document states: "The reduced request for 2006 reflects the decision to shift high-school-related TRIO resources to the proposed High School Intervention initiative, which would provide a more flexible, comprehensive, and accountable approach to addressing the college preparation needs of high school students. The new initiative would help ensure that the types of services currently provided under programs like Upward Bound, Talent Search, and GEAR UP are part of a broader effort to provide students, especially those most at-risk, with the full range of services they need in order to succeed. The remaining Federal TRIO Programs would receive \$369.4 million to maintain services for more than 420,000 low-income, first-generation (or disabled) individuals."
- **GEAR UP:** The budget would eliminate the Gaining Early Awareness and Readiness for Undergraduate Programs, which were funded at \$306.5 million. The Department's budget document states: "GEAR UP received an Adequate PART rating because it employs a number of strategies that other studies have found to be effective, but no data are available to measure progress toward long-term program goals. The proposed new High School Intervention initiative would provide a more comprehensive approach to improving high school education and increasing student achievement, especially the achievement of those most at risk of educational failure and dropping out."
- **LEAP:** As with the FY03, FY04, and FY05 budget requests, the FY06 budget would provide no funding for the Leveraging Educational Assistance Partnerships on the grounds that the program has accomplished its objective of stimulating all states to establish need-based postsecondary student grant programs, and that federal incentives for such aid are no longer required.
- **FIPSE:** The budget would provide \$22.2 million in total funding for the Fund for the Improvement of Postsecondary Education. The proposal does not include funding for one-time projects, which totaled \$145.2 million in FY05. The Department's budget document states: "The 2006 request would support new competitions under the Comprehensive Program and the International Consortia programs, thus beginning to restore the FIPSE programs to the levels at which they were funded in fiscal year 2004. Funding for the Comprehensive Program would support projects that target areas of higher education deemed to be a top priority."
- **Presidential Math and Science Scholars:** The Administration proposes to create a new program to encourage students to study math and science. The program would be funded at \$50 million in FY06.

Higher Education Act (HEA) Reauthorization Proposals Included in the FY06 Budget

The following are specific policy proposals included in the budget that relate to the current effort to reauthorize the Higher Education Act. The proposals:

- **Pell Grants:** The Administration proposes to:
 - o Increase the Pell Grant maximum award by \$100 per year for the next five years to reach \$4,550;
 - o Make Pell Grant awards available year-round to students at two- and four-year institutions;
 - o Limit Pell grant eligibility to the equivalent of 16 semesters;
 - o Eliminate so called "tuition sensitivity," which limits the amount of Pell funding that students can receive while attending low-cost institutions; and
 - o Create the Enhanced Pell Grants for State Scholars program, which would provide up to an additional \$1,000 to Pell recipients that complete the State Scholars curriculum in high school.
- **Student Loans:** The budget proposes to:
 - o Eliminate the Perkins Loan Program and recall the federal portion of revolving funds held by participating institutions;
 - o Increase subsidized loan limits for first year students from \$2,625 to \$3,500 and for second-year students from \$3,500 to \$4,500;
 - o Increase unsubsidized loan limits for graduate students from \$10,000 to \$12,000;
 - o Increase aggregate student loan limits to correspond to the increases mentioned above;
 - o Expand student loan extended repayment options to all federal student loan borrowers, not just those who participate in the Direct Loan program;
 - o Expand loan forgiveness for math, science, and special education teachers serving low-income communities from \$5,000 to 17,500 for loans made between October 1, 1998 and September 30, 2005;
 - o Maintain the current variable interest rate formula for all new Stafford Loans in lieu of converting to a fixed 6.8 percent interest rate that is scheduled for July 2006;
 - o Convert Consolidation student loans to a variable interest rate from the current fixed rate it now uses;
 - o Permit borrowers to re-consolidate their loans and imposing a one percent origination fee on all reconsolidated loans;
 - o Increase the current one time lender fee on all new Consolidation loans from 0.5 percent to one percent;
 - o Reinstate expired provisions that exempt institutions with student loan cohort default rate of less than 10 percent from the requirements that loans to first-year students not be disbursed until 30 days after enrollment and all loans be issued in at least two separate disbursements;
 - o Require guaranty agencies to collect the 1 percent insurance premium on all loans guaranteed or disbursed after October 1, 2005 in order to help build up reserves;
 - o Expand lender risk-sharing by reducing the amount of loan principal insured against default from 98 percent to 95 percent;
 - o Reduce the amount guaranty agencies may retain from collections on defaulted student loans;
 - o Impose a 0.25 percent annual loan holder fee on the outstanding balance of non-Consolidation loans; and

- o Eliminate, permanently, the so-called "9.5% loophole" on student loans that has permitted some student loan lenders to receive millions of dollars in excess loan subsidies through the recycling of loans funded through tax-exempt securities.

- **Other provisions:** Other HEA-related proposals in the budget would:
 - o Eliminate the so-called "90-10 rule" which requires that at least 10-percent of an institution's revenue come from non-federal sources in order for an institution to participate in federal student aid programs;
 - o Eliminate the so-called "50% rule" that applies to distance education programs and restricts eligibility to participate in federal student aid programs. The rule requires 50-percent of a program's courses be offered on campus;
 - o Clarify the current ban on students receiving federal aid who have been convicted of a drug-related offense. Under the proposal, the provision would only apply to students who commit a drug-related offense while enrolled in college. Incoming students would be exempted;
 - o Change student classification rules to make active duty military personnel independent students for the purpose of determining eligibility of federal student aid; and
 - o Create a new Presidential Math and Science Scholars program to encourage students to study and math and science. It would be funded at \$50 million in FY06. Under the program, the Department of Education would enter into a public-private partnership to award \$100 million annually in grants to low-income math and science students. Approximately 20,000 low-income students who receive Pell Grants would receive these separate, additional awards of \$5,000 each.

House Action

House Subcommittee Markup:
House Full Committee Markup:
House Floor Action:

House Subcommittee and Full Committee Hearing/Markup Summaries

Subcommittee

[Testimony](#) of the Honorable Margaret Spellings, Secretary of Education Before the Subcommittee on Labor, HHS, and Education Regarding the FY 2006 Budget for the Department of Education – March 2, 2005

Full Committee

House Floor

Relevant House Report Language

Senate Action

--Prepared by the Association of American Universities (AAU)