Congress of the United States
House of Representatives
Washington, DC 20515

March 15, 2005

New Report: Bush Plan Cuts College Aid for 500,000

Dear Colleague:

Attached for your information is a new report documenting the continuing failure of the Administration to adequately help the nation's students achieve earn a college degree. This report finds that:

- ✓ Since 2001, the cost of attending a public four-year college has increased more than $2,300, but President Bush's response primarily has been to freeze Pell Grants. Now he proposes to increase the maximum Pell Grant by $100 to $4,150 in 2006, but this small raise would pay only 4 percent of the college cost increase since 2001.

- ✓ The President finances this small Pell increase by cutting other student aid programs. As a result, nearly 500,000 college students could actually see their financial aid *cut* next year under a plan the President claims would make college more affordable.

- ✓ If President Bush's proposal is enacted, the maximum Pell Grant will have risen only 19 percent during his two terms, less than a third of estimated college cost growth between 2001 and 2009. During the Clinton years, the maximum Pell Grant increased nearly 40 percent faster than the increase in college costs.

- ✓ Under the President's proposal, Pell Grants will continue to lose purchasing power. By 2010, the maximum Pell Grant will likely finance just 29 percent of student expenses at a public four-year college, down from 36 percent in 2004 and 72 percent in 1976.

- ✓ President Bush has failed to provide relief for rising college costs. In contrast, House Democrats have proposed to make college tuition more affordable by renewing States' commitment to higher education funding, providing incentives for colleges to provide affordable tuition, and requiring schools to pursue more cost effective methods of providing quality college degrees.

We hope you will find this new staff report useful.

Sincerely,

DAVID OBEY
Ranking Member
Committee on Appropriations

GEORGE MILLER
Ranking Member
Committee on Education and Workforce

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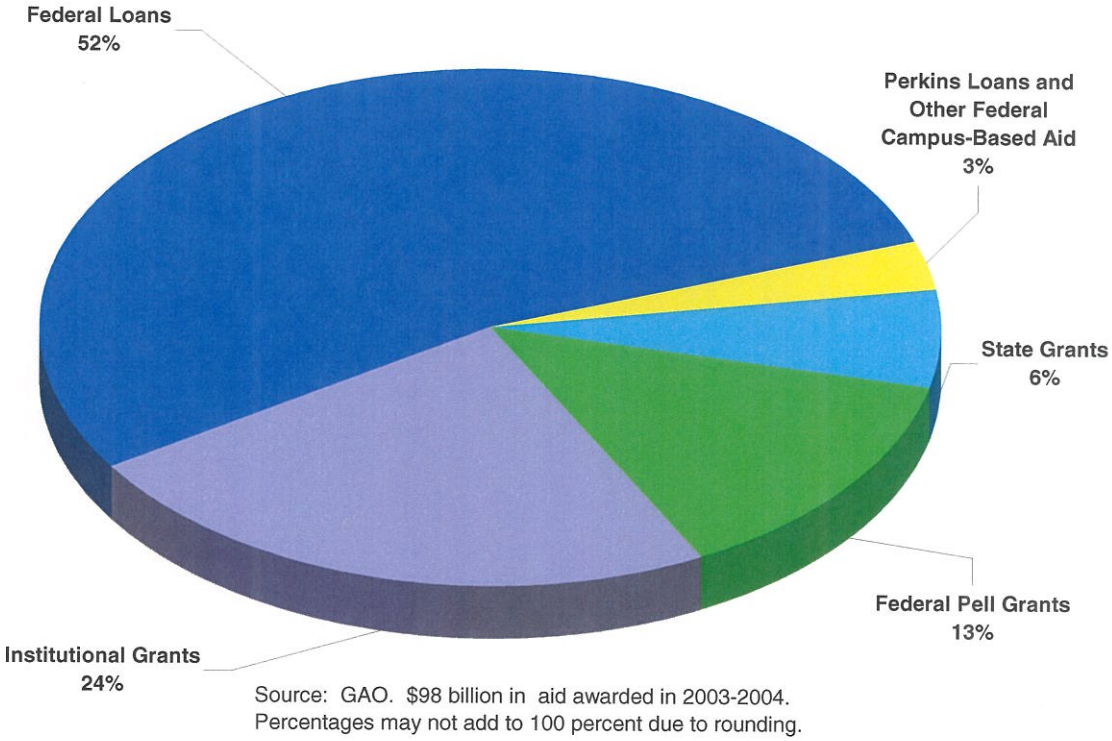
ROBBING PERKINS TO PAY PELL: THE BUSH COLLEGE AID PROPOSAL



Source: GAO. $98 billion in aid awarded in 2003-2004.
Percentages may not add to 100 percent due to rounding.

A REPORT PREPARED BY THE DEMOCRATIC STAFF OF
THE HOUSE COMMITTEE ON APPROPRIATIONS AND
THE COMMITTEE ON EDUCATION AND THE WORKFORCE
MARCH 15, 2005
AVAILABLE AT: WWW.HOUSE.GOV/APPROPRIATIONS_DEMOCRATS

SUMMARY

Pell Grants are the foundation of America's commitment to college access and opportunity. Today, 5.3 million low- and middle-income students rely on Pell scholarships up to a maximum of $4,050 to afford a postsecondary education.

President Bush recently trumpeted his budget proposals to increase Pell Grant college assistance for low- and middle-income students. Nonetheless, by any measure, the President has not lived up to his promises. Nor does his budget come close to meeting the financial needs of deserving students who want to earn a college degree. The President has neglected to mention that:

- ✓ The President's new pledge to boost the Pell Grant by $500 over the next five years leaves the maximum Pell Grant $550 short of his 2000 campaign promise.

- ✓ Since 2001, the cost of attending a public four-year college has increased more than $2,300, but President Bush's response primarily has been to freeze Pell Grants. Now he proposes to increase the maximum Pell Grant by $100 to $4,150 in 2006, but this small raise would pay only 4 percent of the college cost increase since 2001.

- ✓ The President finances this small Pell increase by cutting other student aid programs. As a result, nearly 500,000 college students could actually see their financial aid *cut* next year under a plan the President claims would make college more affordable.

- ✓ If President Bush's proposal is enacted, the maximum Pell Grant will have risen only 19 percent during his two terms, less than a third of estimated college cost growth between 2001 and 2009. During the Clinton years, the maximum Pell Grant increased nearly 40 percent faster than the increase in college costs.

- ✓ Under the President's proposal, Pell Grants will continue to lose purchasing power. By 2010, the maximum Pell Grant will likely finance just 29 percent of a student's education expenses at a public four-year college, down from 36 percent in 2004 and 72 percent in 1976.

- ✓ President Bush has failed to provide relief for rising college costs. In contrast, House Democrats have proposed to make college tuition more affordable by renewing States' commitment to higher education funding, providing incentives for colleges to provide affordable tuition, and requiring schools to pursue more cost effective methods of providing quality college degrees.

This report examines the Administration's proposals for Pell Grants and other discretionary student financial aid programs.

WHAT THE PRESIDENT TOLD STUDENTS AND THEIR FAMILIES

The Administration proposes a yearly increase of $100 in the maximum Pell Grant over the next five years (from 2006 to 2010) to $4,550 and assumes a freeze at that level thereafter through 2015. [i] In order to finance the increases, the 2006 budget includes $13.2 billion in discretionary funds for the cost of operating the Pell Grant program at the current maximum award level of $4,050. It includes mandatory funds to finance Pell Grant award increases over the base level and to pay off a $4.3 billion budget shortfall in the program that has accrued since 2001.[ii]

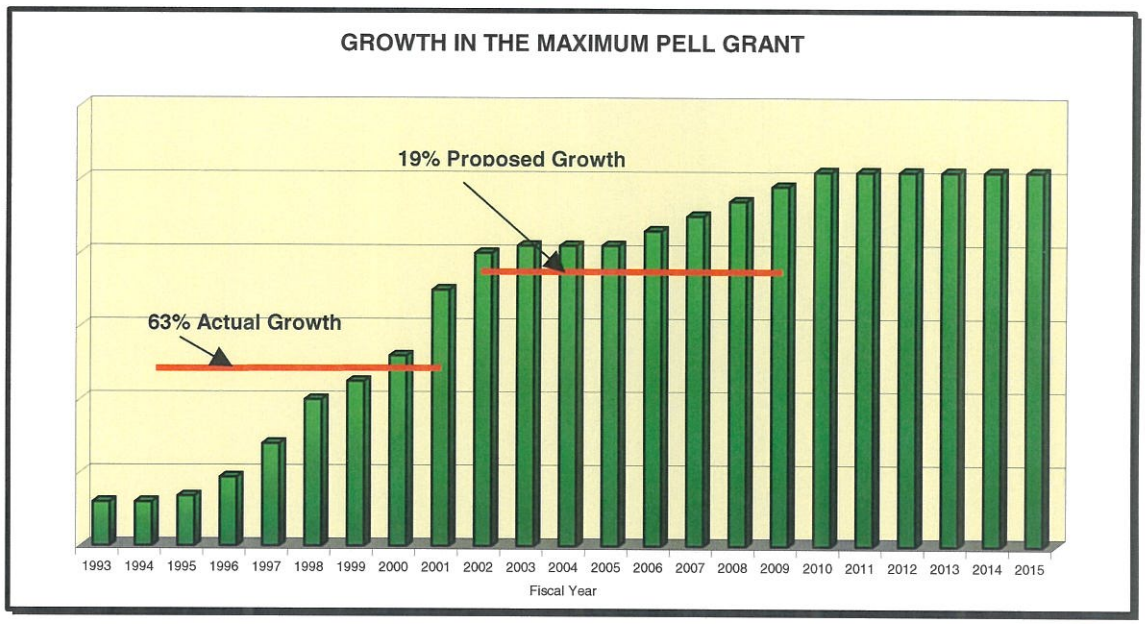
WHAT THE PRESIDENT DIDN'T SAY

Pell Grant increases were fought by Bush and Republicans. When President Bush took office in 2001, Congress had just adopted a Democratic-led increase of $450 in the maximum Pell Grant to $3,750 – the largest in the program's history. Over the objections of the Administration, the maximum grant was increased again by $250 to $4,000 in 2002 and by $50 to $4,050 in 2003. The Administration proposed to freeze the maximum grant in 2004 and again in 2005. Republican leaders in Congress accepted this deep freeze in Pell Grant assistance.

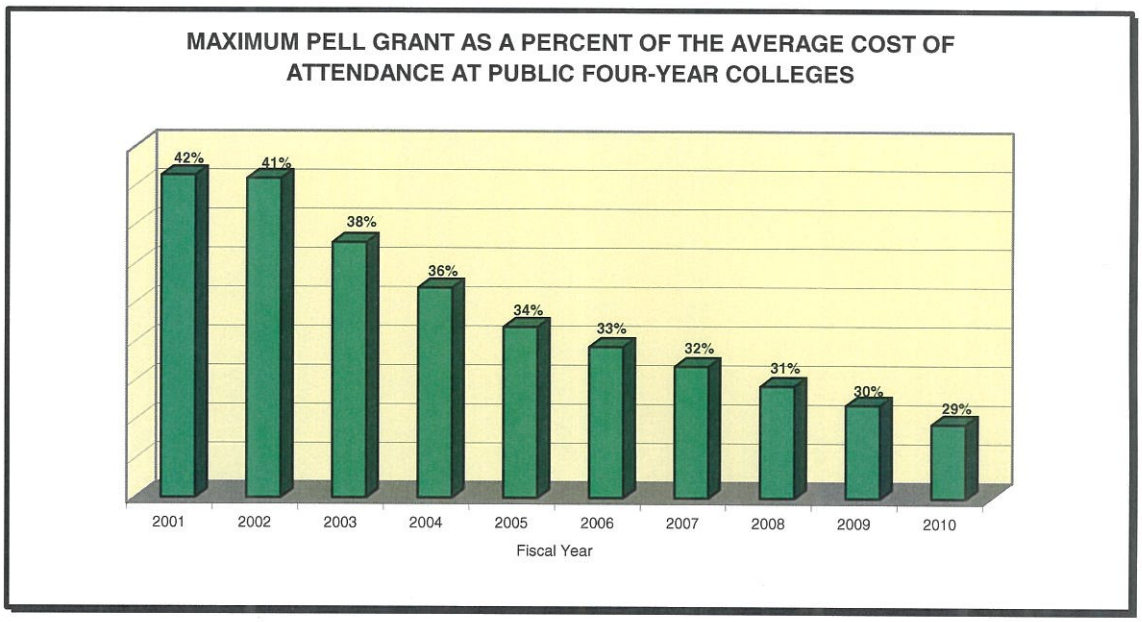
The Administration will eliminate Pell Grants in 2005 for 81,000 students. Just weeks before announcing his 2006 Pell Grant proposals, the Administration changed how the Federal government computes students' aid eligibility, cutting the deduction allowed for payment of state and local taxes. As a result, 81,000 students will no longer receive a Pell award in 2005, [iii] and over a million students will see cuts in their Pell awards. The Government Accountability Office determined that had a similar proposal been adopted, it would have required most student aid applicants to pay about $500 more on average toward their college expenses.

Pell Grants will remain below the level Bush promised five years ago. During his 2000 campaign, President Bush promised to raise the maximum Pell Grant for all college freshmen students from $3,300 to $5,100. Under his 2006 budget, however, first-year students would receive nearly $1,000 *less* than the amount he promised five years ago. And by 2010, the maximum Pell Grant for college freshman would still be $550 less than his earlier pledge.

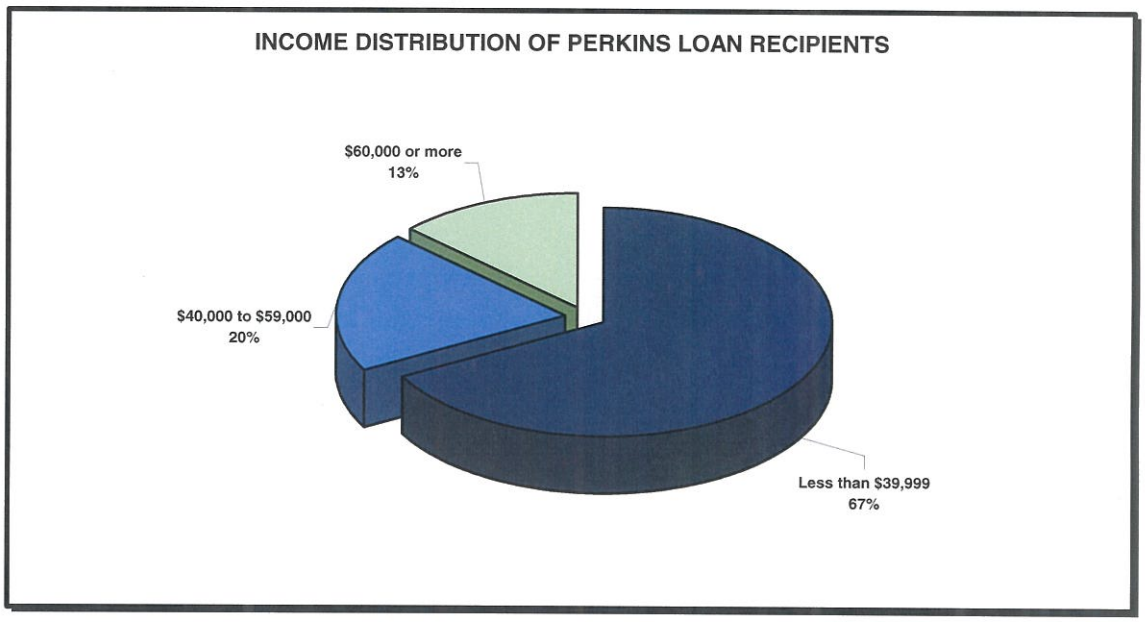
Pell Grants will grow more slowly under the Bush Administration than during the previous eight years. During President Clinton's two terms, the maximum Pell Grant increased 63 percent, from $2,300 to $3,750 – nearly 40 percent faster than the growth in the cost of attending a public four-year college during that period. However, if President Bush's proposal is enacted, the maximum Pell Grant will have risen only 19 percent, from $3,750 to $4,450, during Bush's eight years in office – less than a third of an estimated 67 percent growth in cost of attendance between 2001 and 2009. [iv]



Pell Grants will continue to lose purchasing power. Under the President's proposal for Pell Grants, students would see a small average annual increase in their Pell awards of about 2.4 percent between 2005 and 2010. Between 1984 and 2004, the average cost of attendance at public four-year colleges rose at an average annual rate of 5.8 percent. If college costs were to increase at the same annual rate through 2010 (a conservative assumption given recent double digits increases in college tuition), the maximum Pell Grant would finance just 29 percent of a student's education expenses at a public four-year college in 2010,[v] down from 36 percent in 2004 and 72 percent in 1976.



Robbing Perkins to pay Pell Grants. The President finances his Pell Grant increase by terminating Perkins Loans, which provide low-interest (5 percent) loans to students who demonstrate substantial need. Two-thirds of Perkins students come from families with annual incomes of $40,000 or less. The Administration would not only halt all new Federal investments in the program but also recall over ten years all Federal capital – about $6 billion – invested in Perkins revolving loan funds over the years. [vi] Under the Administration's plan, no new Perkins Loans would be made beginning in 2006.

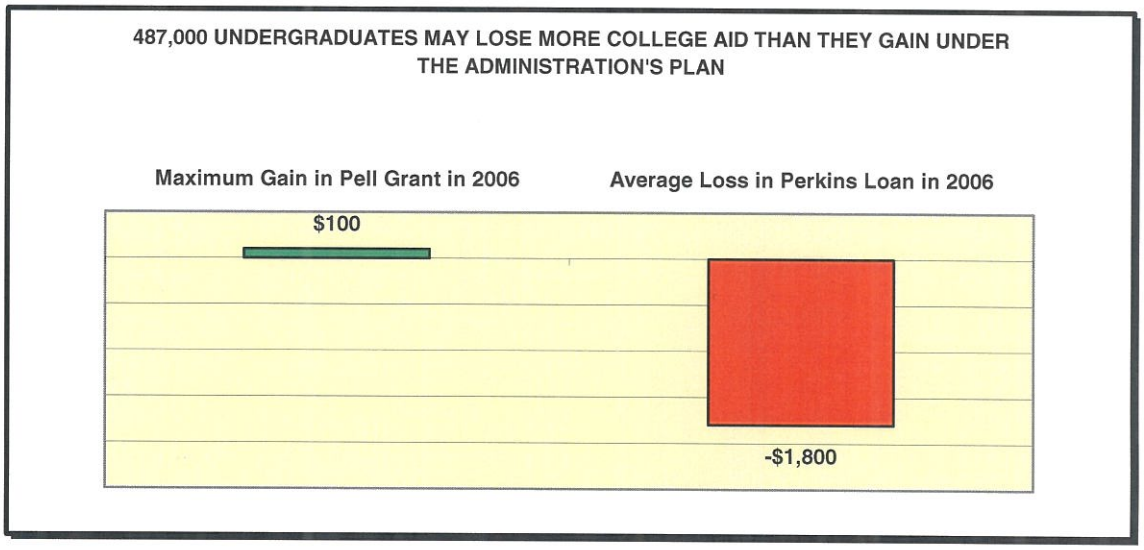


The Administration suggests that terminating Perkins Loans is justified because these resources will be invested into Pell Grants for low- and moderate-income students. However, the Administration's proposal is shortsighted for several reasons. First, because colleges and universities must add one dollar from their own resources to match every three dollars of Federal Perkins capital they receive, the $6 billion in Federal capital currently held in Perkins revolving funds has leveraged roughly $2 billion in additional need-based student aid. Second, as Perkins Loans are repaid, the funds become available to assist other needy students, multiplying the impact of the Federal government's initial investment. Because these funds can be reused, the Perkins Loan program has provided over $21 billion in loans to millions of families across the country. Third, through loan forgiveness, Perkins recipients are encouraged to pursue public service careers in teaching shortage areas such as special education, math and science, as well as careers in nursing, law enforcement, VISTA/Peace Corps and the military.

In 2005, about 567,000 students are expected to receive Perkins Loans[vii]: about 487,000 undergraduates with loans averaging $1,800 and 79,000 graduate students with loans averaging $3,200.[viii] Campus officers at nearly 1,800 colleges and universities use Perkins Loans to address student financial need after Pell Grants and other types of financial aid have been awarded. About 90 percent of Perkins Loan recipients rely on guaranteed student loans to pay their college expenses, 61 percent receive Pell Grants and roughly one-third receive help from Supplemental Educational Opportunity Grants or College Work-Study. [ix]

Percentage of Perkins Loan Recipients Who Receive Other Forms of Student Aid	
Pell Grant	61%
Supplemental Educational Opportunity Grant	37%
College Work-Study	34%
Federal Family Education Loan or Direct Student Loan	90%

Perkins recipients may find it difficult to find additional aid to completely offset the loss of these loans under the Administration's plan. Of the 487,000 undergraduate Perkins Loan recipients, even those with the greatest financial need (the 61 percent who qualify for Pell Grants) would gain at most a $100 increase in their maximum Pell Grant in 2006 ($500 more by 2010). In 2006, these undergraduates would suffer a loss 18 times their gain in Pell assistance.

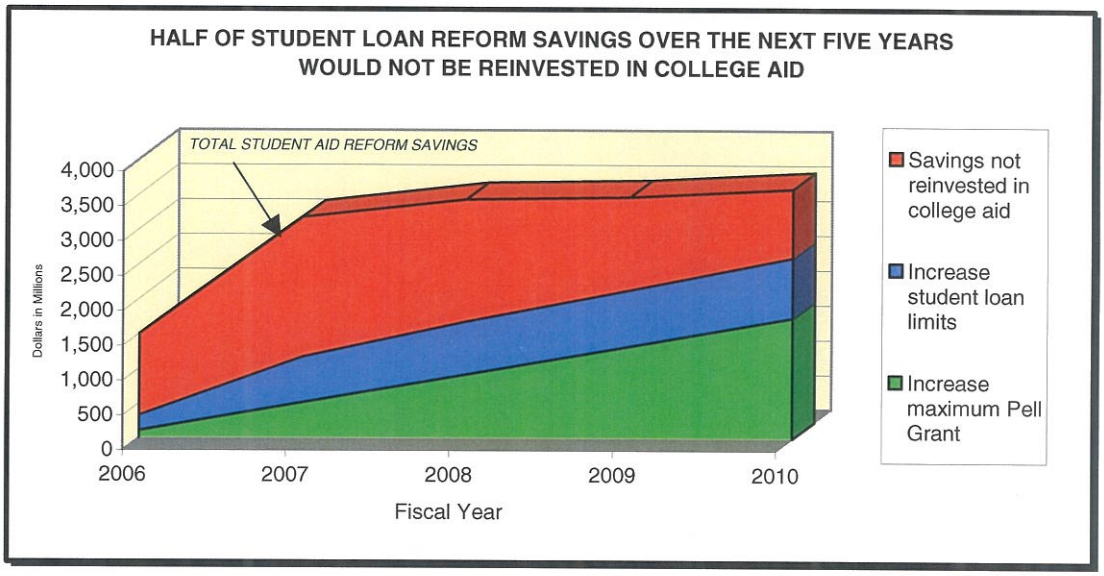


While it is possible that some colleges may continue to provide their 25 percent share of Perkins awards and some students may qualify for additional Federal guaranteed student loans, the increased loan limits proposed by the Administration would still fall short of the loss in Perkins assistance.[x]

Half of student loan reform savings over the next five years would not be reinvested in college aid. In addition to its proposal to end Perkins Loans, the Administration proposes extensive changes to the Federal guaranteed student loan programs to achieve budget savings of $15.1 billion over the next five years ($33.3 billion over ten years).[xi] These proposals include permanently closing some loopholes that allow lenders to earn excessive 9.5 percent subsidies on certain student loans, reducing other subsidies to lenders and increasing risk

sharing, adjusting guarantee agency re-insurance and default retention payments, and restructuring student loan consolidation.

The Administration proposes, however, to reinvest only $4.6 billion over the next five years ($15.0 billion over ten years) of the savings generated from student loan reforms into Pell Grants. About $3.3 billion over the next five years ($7.7 billion over ten years) would be used to raise the amounts that students may borrow under the guaranteed student loan programs. The remainder of the savings – $7.2 billion over five years ($10.7 billion over ten years) – would not be reinvested in college aid.



Retreating on other student financial assistance. In addition to Perkins Loans, the Federal government supports a number of student assistance programs that are designed to provide flexibility to campus administrators in addressing unmet student financial needs. Funding for these assistance programs has failed to keep pace with growth in college costs and enrollment during the Bush Administration.

The President's Budget For Other Discretionary Student Aid Programs

(Dollars in Millions)

	Amount Needed To Maintain Purchasing Power[xii]	FY 2006 Request	Difference	
			dollars	percent
College Work-Study	$1,552	$990	-$561	-36.2%
Supplemental Educational Opportunity Grants	$1,061	$779	-$282	-26.6%
Leveraging Educational Partnerships	$84	$0	-$84	-100.0%

College Work-Study provides students with earnings from part-time, practical work experience. If College Work-Study funding were to keep pace with increases in the cost of attendance at public four-year colleges and enrollment growth since 2001, $1.6 billion would be needed for the program in 2006. In contrast, President Bush proposes to freeze work-study funding at $990 million in 2006, $561 million less than the amount that would maintain its purchasing power. Similarly, the Administration's request for Supplemental Educational Opportunity Grants for students with extraordinary financial need falls $282 million short of the amount needed to maintain their purchasing power since 2001. Leveraging Educational Assistance Partnership (LEAP) grants provide an incentive for states to invest their own resources in need-based college scholarships. In 2006, $84 million would be needed to maintain their purchasing power since 2001. However, President Bush proposes to terminate LEAP grants.

CONCLUSION

College students are not the "winners" under President Bush's college aid proposal that the Administration would like Americans to believe. Since 2001, the cost of attending a public four-year college or university has risen 26 percent – over $2,300. However, the proposed $100 increase for the maximum Pell Grant in 2006 would pay only 4 percent of increased college costs since 2001. If President Bush's proposal for an additional $500 in Pell Grant assistance over five years is enacted, the maximum Pell Grant will have risen less than a third of estimated college cost growth between 2001 and 2009. As a result, the purchasing power of Pell Grants will continue to decline.

President Bush has failed to provide relief for rising college costs. In contrast, House Democrats have proposed to make college tuition more affordable by renewing States' commitment to higher education funding, providing incentives for colleges to provide affordable tuition, and requiring schools to pursue more cost effective methods of providing quality college degrees.

The importance of obtaining a college degree has only increased in the 21st century knowledge economy. However, the President has presented a budget that not only fails to adequately help the nation's students achieve their college dreams, but also makes it even more difficult in the future to invest in college access and opportunity.

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[i]The Administration proposes several other changes to the Pell Grant Program, including making Pell Grants available year-round, limiting Pell Grant eligibility to 16 semesters and indexing the minimum Pell Grant award to the maximum award beginning in 2007. The Administration also proposes to spend a maximum of $33 million for "enhanced" Pell Grants of up to $1,000 each for students who participate in the State Scholars Program and $50 million matched by an equal amount of private funding to provide up to $5,000 each for students who study math and science. The two latter proposals, however, would assist 56,000 students – about 1 percent of all Pell Grant recipients.

[ii] This shortfall occurred due to a sharp increase, coinciding with the 2001 economic downturn, in the number of students qualifying for Pell Grants.

[iii]Department of Education unpublished analysis.

[iv]Growth in average cost of attendance at public four-year colleges calculated from data in The College Board, Trends in College Pricing, 2004, Table 4b. Cost of attendance includes tuition, fees, and room and board.

[v] See the following table for maximum Pell Grant, estimated average cost of attendance at public four-year colleges and maximum Pell Grant as a percentage of cost of attendance.

MAXIMUM PELL GRANT AS A PERCENT OF COST OF ATTENDANCE

School Year/ Fiscal Year	Maximum Pell Grant	Cost of Attendance (CoA) at a Public Four-Year Institution	Maximum Pell Grant as a Percentage of CoA
2004	4,050	11,354	36%
2005	4,050	12,013	34%
2006	4,150	12,711	33%
2007	4,250	13,449	32%
2008	4,350	14,230	31%
2009	4,450	15,057	30%
2010	4,550	15,931	29%

Notes: 2004 actual average cost of attendance from The College Board, Trends in College Pricing, 2004, Table 4b. Cost of attendance estimates for 2005 through 2010 assume that the average cost of attendance at public four-year colleges will increase 5.8 percent per year between 2004 and 2010, based on the historical 20-year average between 1984 and 2004. Maximum Pell Grants in 2005 through 2010 are the amounts proposed by the Administration.

[vi]Under the Administration's proposal, all Federal capital contributions to Perkins revolving loan funds except amounts needed to reimburse colleges and universities for Perkins loan cancellations would be recalled.

[vii]Department of Education, Fiscal Year 2006 Justifications of Appropriations Estimates to the Congress, vol. II.

[viii] Department of Education data in the Fiscal Year 2006 Justifications of Appropriations Estimates to the Congress indicate that in 2002 86 percent of Perkins Loan recipients were undergraduates and 14 percent were graduate students. Applying these percentages to the Department's estimate of 566,834 Perkins Loan recipients in 2005 yields 487,477 undergraduate recipients and 79,357 graduate recipients.

[ix] Estimates by the American Council on Education, Center for Policy Analysis, based on data from the U.S. Department of Education's National Postsecondary Student Aid Study (NPSAS): 1999-2000. This is the most recent data available.

[x] The Administration proposes to raise the Federal guaranteed subsidized loan limit for 1st year undergraduates by $875, from $2,625 to $3,500. The limit for 2nd year undergraduates would be increased by $1,000, from $3,500 to $4,500. Corresponding increases in aggregate loan limits are also proposed.

Under a best case scenario, for example, in 2006, a typical Perkins Loan recipient who loses the federal share of his or her average Perkins Loan - $1,350 (75% of $1,800) - in the sophomore year would at most gain an additional $100 in Pell Grant assistance if he or she qualifies and an additional $1,000 in guaranteed student loan borrowing authority. The additional $1,100 would not be enough to completely offset the $1,350 loss in Perkins assistance. The gap would be greater ($700) if the student lost the entire $1,800 Perkins Loan.

[xi]Fiscal Year 2006 Budget of the U.S. Government, Table S-6. Mandatory Proposals.

[xii] The "Amount Needed to Maintain Purchasing Power" is calculated by multiplying each program's fiscal year 2001 appropriation by a cost of attendance factor (cost of attendance in 2006 divided by actual cost of attendance in 2001 ($12,711/$9,032 = 1.4073) and by an enrollment factor (higher education enrollment in 2006 divided by higher education enrollment in 2001 (16,887,000/15,484,000 = 1.0906). Fiscal year 2001 appropriations were $1,011,000,000 for College Work-Study, $691,000,000 for Supplemental Educational Opportunity Grants, and $55,000,000 for Leveraging Educational Assistance Partnerships. Cost of attendance in 2001 is from The College Board, Trend in College Pricing, 2004 and in 2006 is estimated as described in endnote v. Enrollment figures are from the National Center for Education Statistics, Projections of Education Statistics to 2013, November 2003.