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LC 14.2: IB88036

Issue Brief

Order Code IB88036

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OF TEXAS AT AUSTIN

JUN 24 1988

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EDUCATION FUNDING ISSUES FOR FY89

Updated April 15, 1988



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EDUCATION FUNDING ISSUES FOR FY89

SUMMARY

The President's overall FY89 budget request for the U.S. Department of Education is \$21.2 billion, 4.2% above the amount appropriated by Congress for FY88, but .5% below the Gramm-Rudman-Hollings estimated baseline for FY89.

Despite some individual programs reductions, the FY89 budget increases funding for most major elementary, secondary and higher education programs. The largest increases (above the FY88 appropriation) are recommended for the Pell Grant program (\$750.6 million), the Guaranteed Student Loan program (\$170.6 million), Chapter 1 (\$238.1 million), Chapter 2 (\$66.6 million), and the magnet school program (\$43.2 million). Funding would be eliminated for "3b" payments under the impact aid program (payments based on children whose parents live or work on Federal property), new capital contributions under the Perkins loan program, State Student Incentive Grants, vocational education's consumer and homemaking education, the non-historically black colleges portion of the developing institution program, the LEAD program, the Star Schools program, and several relatively small discretionary grant programs like the Women's Educational Equity program, education programs for the homeless, and migrant education. Unlike the Administration's past requests, appropriations are recommended for the vocational education and teacher training programs.

The FY89 budget also assumes that H.R. 5 (the omnibus elementary and secondary education reauthorization bill currently in conference committee) will be enacted. H.R. 5 changes the current Chapter 1, bilingual education, and the science and mathematics programs, as well as initiates new teacher and school reform and parental choice programs. Formal submission of the FY89 budget for these programs is withheld pending the enactment of H.R. 5.

Some of the most significant changes recommended for current law involve student aid reforms, such as simplifying the need analysis system used to determine eligibility for student aid, restricting eligibility for a Pell Grant to students who have a high school diploma or its equivalent, and instituting legislative and regulatory changes to the GSL program.

The House passed its version of the First Concurrent Resolution on the Budget for FY89 (H. Con. Res. 268), which assumes that all education programs would receive funding that would be equal to at least the Congressional Budget Office's 1989 policy baseline and that there would be further increases for particular programs including Chapter 1 and the Pell Grant program. The Senate amended and passed its version of the budget resolution, which would increase FY89 ED funding by \$1.2 billion above the FY88 appropriation.

ISSUE DEFINITION

Congress considers annually the funding levels for all programs administered by U.S. Department of Education (ED). The debate in this process has been focused on how much the Federal Government should spend on education, and what, if any, program changes might be necessary to achieve these levels.

BACKGROUND AND ANALYSIS

Overview

The following overview table compares FY87 and FY88 appropriations levels with the Administration's FY89 request for ED programs. All amounts used in the issue brief are current dollars and no attempt is made to evaluate the impact of inflation on actual program operation levels. The U.S. Office of Management and Budget (OMB) estimates that the inflation rate for FY89 will be 3.3% and the Congressional Budget Office estimates that this rate will be 4%.

Readers should be aware that the Omnibus Budget Reconciliation Act of 1987 assumes a 2% overall increase in FY89, above the FY88 appropriations levels, for nondefense discretionary budget accounts, which would include most ED programs. However, this 2% overall increase must be achieved at the aggregate budget level and may vary among individual programs.

The FY89 budget request also contains a credit reform proposal that affects direct and guaranteed loan programs government-wide. The estimated FY89 new budget authority and outlays that are reported in OMB's budget documents for the Department of Education and Function 500 -- Education, Training, Employment and Social Services (one of the larger program clusters in the budget) -- include the costs of implementing the credit reform proposal. This proposal would change the way Federal credit programs are treated in the budget by requiring Federal agencies to seek appropriation amounts equal to the estimated subsidy component of direct and guaranteed loans that they propose to make each year. The agencies would then make outlays of this amount to central funds in the U.S. Treasury. The credit reform proposal would require an additional \$3.1 billion in budget authority and an estimated \$2.5 billion in outlays for FY89 for the Guaranteed Student Loan program (the only ED program affected by this reform). Appropriations for the credit reform program and the outlays that would result from these appropriations do not represent benefits for program recipients, but represent an intergovernmental transfer to the U.S. Treasury. Therefore, this issue brief does not include the credit reform funding estimates in any of its discussions on funding levels.

The highlights of the FY89 request are discussed following the table as is a brief historical overview of Federal funding for ED programs.

TABLE 1. Appropriations for U.S. Department of Education
Programs, FY87-FY89
(\$ in thousands)

	FY87	FY88	FY89 (req.)
Compensatory education			
Chapter 1	\$3,944,163	\$4,327,927	\$4,566,065
Migrant education <u>a/</u>	7,500	8,616	-0-
Impact aid	717,500	708,476	592,000
Special programs			
Chapter 2	529,337	508,439	575,000
Drug free schools	200,000	229,776	250,000
Science and mathematics	80,000	119,675	119,675
Other special programs <u>b/</u>	215,153	172,848	185,579
Bilingual education <u>c/</u>	188,981	191,751	200,504
Education of the handicapped	1,741,900	1,869,019	1,916,882
Vocational rehabilitation	1,484,758	1,590,400	1,616,435
Indian education	64,036	66,326	67,653
Vocational education <u>d/</u> (Includes Smith-Hughes)	881,967	888,243	888,243
Adult education	112,881	134,036	150,000
Student financial assistance			
Pell grants	4,187,000	4,260,430	5,011,000
Supplemental grants	412,500	408,415	416,583
College work-study	592,000	588,249	600,014
Perkin's direct loans	210,000	210,628	22,000
Income contingent loans	5,000	4,308	50,000
State student incentive grants	76,000	72,762	-0-
Guaranteed student loan <u>e/</u>	2,717,000	2,565,000	2,735,598
Higher education			
Institutional development	147,208	152,370	136,978
Special programs for the disadvantaged	176,370	205,841	205,841
International education	33,050	30,685	30,685
Other <u>f/</u>	184,250	207,806	78,366

See footnotes at end of table.~

TABLE 1. (continued) Appropriations for U.S. Department of Education Programs, FY87-FY89 — Continued
(\$ in thousands)

	FY87	FY88	FY89 (req.)
Higher education facilities loan and insurance	19,205	-0-	-0-
College construction loan insurance	-0-	19,148	-0-
Education research and statistics	63,578	67,526	81,000
Libraries	132,500	135,089	76,000
Programs for special institutions	269,740	271,268	278,022
Departmental management	294,070	299,118	314,701
Total Department of Education	\$19,687,697	\$20,314,175	\$21,164,824

a/ These programs are the migrant education programs of high school equivalency and college assistance, not the Chapter 1 migrant programs.

b/ This category of programs includes teacher training programs, Follow Through, Ellender Fellowships, Women's Educational Equity, magnet schools, LEAD program, aid to the homeless, training and advisory services, and aid to the Virgin Islands.

c/ These amounts include funds for the Bilingual Education Act, the Emergency Immigrant Education program and the Refugee Education Grants.

d/ The Smith-Hughes is a permanent appropriation of \$7.148 million provided for vocational education.

e/ The GSL figure does not include estimated appropriations for the credit reform proposal. See the "Overview" section of this issue brief for a more detailed discussion of the credit reform proposal.

f/ This category of programs includes minority institutions science improvement, fund for the improvement of postsecondary education, cooperative education, veterans' education, graduate programs, and special grants.

Source: Congressional appropriations documents, U.S. Department of Education FY89 budget briefing documents.

Highlights of the President's FY89 Budget Request for Education

The President's FY89 budget recommends \$21.2 billion in new budget authority for ED programs. This is \$850.1 million (or 4.2%) above the FY88 appropriation. Below are some key features of the FY89 budget request for ED.

- o Maintains the current Federal proportion of all expenditures for education -- 6.1% for elementary and secondary, 12.5% for postsecondary, and 8.7% overall.
- o Is \$7 billion more than the President requested in 1988, or a 50% increase over the FY88 request.
- o Programs with the largest increases over FY88 appropriations are:

Pell Grants	\$750.6 million	+17.6%
GSLs	\$170.6 million	+ 6.7%
Chapter 1	\$238.1 million	+ 5.5%
Chapter 2	\$66.6 million	+13.0%
Magnet Schools	\$43.2 million	+60.0%

- o Requests no FY89 appropriations for selected programs; largest of these programs and FY88 appropriations are:

-- Perkins loans (new capital)	-\$185.7 million
-- Impact Aid "3b" payments	-\$134.0 million
-- State Student Incentive Grants	-\$ 72.8 million
-- Consumer and Homemaking Ed.	-\$ 32.7 million
-- Star Schools	-\$ 19.1 million

- o Funds most other ED programs at the FY88 appropriation level.
- o Programs with the largest share of the total requested appropriations for FY89 are:

-- Pell Grants	23.7%
-- GSLs	12.9%

(Together these two programs represent 36.6% of ED's total budget request.)

-- Chapter 1	21.6%
-- Education of the Handicapped	9.1%
-- Vocational Rehabilitation	7.7%

- o Maintains the current distribution of appropriations among programs:

Program	% Share (FY88)	% Share (FY89, req.)
Elementary & secondary education	31%	31%
Student Aid	40%	42%
Vocational & adult education	5%	5%
Special education & vocational rehabilitation	17%	17%
Other	7%	5%
Total	100%	100%

- o Represents over 50% of the total estimated FY89 budget authority and outlays for Function 500 (Education, Training, Employment, and Social Services programs).

Recommended Changes To Current Programs

The request assumes that new programs will be initiated and that statutes authorizing current programs will be changed. The principal program changes that are requested in the budget are discussed below.

Elementary and Secondary Education. The budget assumes that the changes made to the Chapter 1 basic and concentration grant programs, the bilingual education program, and the science and mathematics program by H.R. 5, the omnibus elementary and secondary education reauthorization bill, will be enacted and will affect the FY89 appropriations. Since this bill is currently in conference committee, the details of the program changes and the implications of these changes for FY89 appropriations are not available. (Secretary Bennett announced during House appropriations hearings on the FY89 budget request that the President would submit a revised budget request for programs affected by H.R. 5 after its enactment.)

Postsecondary Student Aid. Some of the most significant changes that are recommended for current law involve reforming student aid programs, such as the following:

- (a) simplifying the current need analysis system used to determine eligibility for student aid by eliminating non-liquid assets (e.g. home, farm, real estate, business) from the test; ED estimates that this change would increase Pell Grant program costs by about \$200 million; and
- (b) requiring a high school diploma or its equivalent to be eligible for student aid and deleting the "ability to benefit" measure to determine eligibility; ED estimates that this change would decrease Pell Grant program costs by \$187 million.

Guaranteed Student Loan (GSL). The request recommends the following changes be made to the GSL program:

- (a) requiring lenders to check credit histories and requiring credit-worthy co-signers for GSL applicants who have poor credit;
- (b) deleting the current prohibition that the National Student Loan Data System not be used for enforcement of borrower eligibility rules;
- (c) requiring schools to conduct an "exit interview" with each borrower to obtain identification and address information upon the borrower's graduation;
- (d) requiring loan purchasers to notify borrowers whenever ownership of the loan changes;
- (e) reducing lender's Federal insurance level from 100% to 90% to encourage lenders to pursue greater collection efforts before filing default claims; and
- (f) lowering the Federal reinsurance of default claims made by guarantee agencies.

The Administration is also proposing regulatory changes that would increase the default prevention responsibilities of postsecondary institutions. The specifics of these changes are not yet available.

Impact Aid. Payments based on "3b" children (children whose parents live or work on Federal property) would be eliminated, and "3a" payments (based on children whose parents live and work on Federal property) would be slightly increased above the FY88 appropriation and focused on districts with high proportions of these children; and payments to any local district that could not qualify for at least a \$5,000 grant would be eliminated.

Historically Black Colleges. The request focuses FY89 appropriations on institutions that enroll large numbers of economically disadvantaged students and funding on activities designed to improve management and operation of the colleges.

Libraries. The current library program would be changed to focus Federal support on resource sharing, to expand library services to the disadvantaged and handicapped, and to support research and assessment.

Vocational Education. The budget recommends that States develop measures for student achievement (e.g., basic skills, job placement at graduation, continuing enrollment in education, and military enlistment); funding for local programs would then depend on how the locality met these State measures; also eliminates funding for some categorical programs such as consumer and homemaking education and reallocates these funds to the basic grant and national programs.

Income Contingent Loans. The request would expand this program by allowing 90 additional institutions or consortia of institutions to apply for funds and would allow graduate and professional students to be eligible for participation.

Campus-Based Aid. Annual Federal allocations would depend on each school's success in meeting its own institutionally determined, federally-approved student outcome measures in such areas as job placement and program completion. For-profit enterprises could not be used as College Work-Study employers, and the employers' match of student wages earned under workstudy would gradually increase from the current 20% to 50% by the 1991-1992 academic year.

Immigrant and Refugee Education. The budget would require that Federal funds be used for education programs meeting the special needs of immigrant and refugee children rather than for the general operating costs of the recipient school districts. Counting the same children to generate funds under both of these programs would be prohibited.

Proposed New Programs

The budget requests appropriations for new programs that are not yet authorized. Some are in the Senate version of H.R. 5, and include the following:

- \$40.0 million for an expanded magnet school program that is not tied to desegregation;
- \$23.9 million for a dropout prevention program;
- \$10.0 million for the creation of a Fund for the Improvement and Reform of Schools and Teaching; and

-- \$5.0 million for parental choice open enrollment program.

New budget authority for these programs is under .5% of the total new budget authority requested for the Department.

Other new programs are proposed, but the details of these proposals are not yet available. For example, the Administration is requesting that parents or students be allowed to use interest free savings bonds to help pay for the costs of college. In theory these bonds would be like current U.S. Savings Bonds, except interest on these bonds for postsecondary education would not be subject to Federal taxation. Tax exemptions would be phased out for higher income families.

The Secretary of Education is also recommending that "challenge grants" would be awarded under certain discretionary grant authorities in the Department to assist recipients generate private sector support. Neither the request nor accompanying budget documents define the purpose of these grants or what discretionary programs would be affected by this type of grant.

Proposed FY88 Program Changes

In addition to requesting appropriations for FY89, the budget also contains a proposal that would affect the FY88 Pell Grant program. The FY88 appropriation for the program is \$99 million short; that is, the program requires an additional \$99 million to provide each Pell Grant recipient with the award amount for which he/she is eligible to receive. The Pell Grant statute contains provisions that would reduce each Pell Grant proportionate to its size when appropriations are insufficient to award each student the Pell Grant amount he/she is eligible for. (Those with the highest awards would lose the least, those with the lowest awards would lose the most.) If this were implemented, the Department estimates that 53,000 students would lose their award and another 1.2 million would have their awards reduced by an average of \$63. The Administration is requesting that, instead of implementing the statutory reduction, each Pell Grant award be reduced by \$31.

Federal Education Expenditures in the Context of the Federal Budget and State and Local Expenditures

Federal

Since 1980, Federal funding for ED has decreased in real terms (after adjusting for inflation) by 7.7%. Likewise, Federal outlays for ED have decreased as a percent of the Gross National Product from .6% in FY80 to an estimated .4% in FY88. There also has been a steady decline in the proportion of total annual Federal outlays that were made for ED programs, decreasing from a high of 2.5% (in FY80) to estimates of 1.8% (in FY88).

Not only has ED's proportion of total Federal outlays decreased over the last several years but it has also decreased when compared to the total Federal outlays made for human resource programs. (Human resource programs are those within a cluster of six budget functions -- Education, Training and Employment (500), Health (550), Medicare (570), Income Security (600), Social Security (650), and Veterans' Benefits and Services (700). These six functions account for most Federal spending for social programs, and nearly half of all Federal spending.) In FY80 Federal ED outlays represented nearly 5% of the total outlays that were made for human resource programs. This proportion has declined to an estimated 3.9% in FY88 and would increase slightly to 4.0% under the President's budget plan.

State and Local Expenditures

Public elementary and secondary schools receive revenues primarily from three sources -- State and local governments and the Federal Government. State governments currently provide the largest portion of these revenues (an estimated 50% in school year 1986-1987) mainly through revenues the State receives from income and sales taxes. Local governments contribute 43.8% of all public elementary and secondary school revenues, primarily through property taxation. The Federal Government provides approximately 6.2% of the total revenues received by these schools, primarily through grants and contracts awarded through the Department of Education and child nutrition programs funded by the Department of Agriculture. Over the last ten school years the Federal contribution to the total revenues received by public elementary and secondary schools has steadily decreased from 8.8% (1977-1978) to 6.2% (1986-1987). (A high was reached in 1979-1980 when the Federal share was 9.2% of the total revenues.) The State share of the revenues received by public elementary and secondary schools increased over this same period (rising from 44.3% to 50%) while the local share decreased from 46.9% to 43.8%. Over the last several years, State governments have replaced local governments in assuming the primary role in financing public schools.

Institutions of higher education receive revenues from a somewhat different mix of sources when compared to public elementary and secondary schools. Although States provide a substantial share of revenues to postsecondary institutions, particularly State university and college systems (an estimated 30% in 1986-1987), local governments provide relatively few revenues to these institutions (2.4% in 1986-1987). The largest portion of revenues received by these institutions are from tuition and fees and endowments. The ED's Office of Educational Research and Improvement estimates that in academic year 1986-1987 the Federal Government (ED only) contributed 6.7% of the revenues of public and private postsecondary institutions. These data are limited, however, in several important ways; for example, (1) they do not include the portion of tuition and fees that are paid by students to postsecondary institutions through Federal student financial aid programs, (thus under-reporting Federal funds received by postsecondary institutions), and (2) they do not include the Federal contribution to education made through various tax expenditures. It should be noted that other Federal agencies finance programs and activities (like research and development) that are not included in this discussion.

Congressional Budget

Budget Resolution

The House passed its version of the First Concurrent Resolution on the Budget for FY89 (H. Con. Res. 268) and the Senate budget committee has begun its consideration of this resolution. The budget resolution establishes revenue and expenditure targets for the whole budget that are consistent with those established in the Omnibus Budget Reconciliation Act of 1987. For education, the House-passed budget resolution assumes that all education programs would receive funding increases that are at least equal to the Congressional Budget Office's current policy baseline for FY89, i.e., the FY88 appropriation plus a 3.9% increase due to inflation. In addition, particular education programs would receive funding above the baseline estimates that would add an additional \$950 million in new budget authority for education. These particular programs and the additional funding amount assumed by the resolution are as follows: Pell Grants, plus \$175 million; Chapter 1, plus \$210 million; Education of the Handicapped, plus \$170 million; Even Start (new program authorized by H.R. 5, which is currently in conference), plus \$53 million; and an additional aggregate sum of \$162 million for the Supplemental Educational Opportunity Grants, magnet schools, TRIO programs (special programs for the disadvantaged), and historically black colleges and universities programs.

In addition, the House passed resolution assumes that there would be an overall 1% reduction in all discretionary programs in Function 500, with the exception of certain programs identified as high priority low income programs. Education programs in this category include compensatory education (Chapter 1 and migrant education), Indian education, handicapped education, postsecondary student financial assistance, TRIO, homeless, vocational rehabilitation, and historically black colleges and universities. The resolution is not clear when the 1% reduction is to be applied, i.e., before or after the various assumed funding increases are applied to the FY88 appropriation.

The Senate passed its version of the budget resolution (H. Con. Res. 268), incorporating the provisions of S. Con. Res. 113 (S. Rept. 100-311), as amended. For ED programs the Senate resolution assumes an aggregate increase of \$1.2 billion over the FY88 appropriation level to support certain "high priority" programs such as Chapter 1, Indian education, education of the handicapped, vocational and adult education, drug-free schools, and postsecondary student aid.

TABLE 2 below shows the President's FY89 budget request for ED in the context of a current policy baseline that is consistent with the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly called the Gramm-Rudman-Hollings Act, G-R-H) and in the context of the funding assumptions used in the House- and Senate-passed versions of the FY89 budget resolution.

TABLE 2. President Reagan's FY89 Budget Proposal Compared With OMB Gramm-Rudman-Hollings (G-R-H) Budget Baseline and the House- and Senate-Passed Versions of the Continuing Resolution on the Budget

Estimated Budget Authority (BA) and Outlays (O) for ED
(in billions)

	FY89 (req.)		FY88 (est.)	
	Budget authority	Outlays	New Budget authority	Outlays
			\$20.3	\$18.8
G-R-H Budget Baseline*	\$21.3	\$20.8		
President's Request**	21.2	20.3		
House-Passed Resolution	23.0	NA		
Senate-Reported Resolution	21.5	NA		

* G-R-H baseline is defined in the Balanced Budget and Emergency Deficit Control Act of 1985 for calculating a budget deficit to determine whether automatic spending reductions are to be triggered. That Act's 1987 amendments specified that the President's budget include a baseline estimate that uses these rules and the economic and technical assumptions consistent with current services estimates. Generally, a baseline estimates program costs for an ensuing fiscal year based upon anticipated costs of continuing Federal programs at present levels without policy changes. The G-R-H baseline for ED programs basically is the FY88 enacted appropriations adjusted for inflation and pay-related cost increases.

** These figures do not contain estimated budget authority or outlays that would result from the enactment of the President's credit reform proposals.

LEGISLATION

P.L. 100-102, H.J. Res. 395

FY88 continuing appropriations resolution, provides funding for most Government programs in FY88. Passed House and Senate Dec. 22, 1987. Signed into law Dec. 22, 1987.

H. Con. Res. 268 (Gray)

Concurrent Resolution on the Budget for FY89. Contains budget targets and funding assumptions for FY89. For education programs, assumes that FY89 new budget authority would increase by \$950 million. This increase would fund all education programs at an amount at least equal to the FY88 appropriation plus inflation and additional funds would be provided for selected education programs. Reported by the Committee on the Budget, H. Rept. 100-523, Mar. 22, 1988. Passed House unamended, Mar. 23, 1988. Passed Senate amended, incorporating the provisions of S. Con. Res. 113, Apr. 14, 1988.

S. Con. Res. 113 (Chiles)

Concurrent Resolution on the Budget for FY89. For ED programs assumes \$1.2 billion in new FY89 budget authority above the FY88 appropriation for certain "high priority" programs. Reported by Committee on the Budget, S.Rept. 100-311, Mar. 31, 1988. Amended (amended provisions incorporated into H. Con. Res. 268) and passed Senate, Apr. 14, 1988.

CONGRESSIONAL HEARINGS, REPORTS, AND DOCUMENTS

U. S. Congress. House. Committee on the Budget. Concurrent resolution on the budget-fiscal year 1989. Washington, U. S. Govt. Print. Off., 1988. 147 p. (100th Congress, 2nd session. House. Report no. 100-523)

U.S. Congress. Senate. Committee on the Budget. Concurrent resolution on the budget, FY89. Washington, U.S. Govt. Print. Off., 1988. 340p. (100th Congress, 2nd session. Senate. Report no. 100-311)

CHRONOLOGY

04/14/88 --- Senate passed its version of H. Con. Res. 268.

03/23/88 --- House passed H. Con. Res. 268

02/18/88 --- President Reagan submitted his budget request for FY89.

FOR ADDITIONAL READING

U.S. Department of Education. Department of Education, the fiscal year 1989 budget summary and background information. (Washington) 1988. 64 p. plus appendix.

U.S. Library of Congress. Congressional Research Service. Impact of legislative changes on major programs administered by the Department of Education, fiscal years 1980-1988, by Paul Irwin et al. [Washington] 1986. 107 p.
CRS Report 87-285 EPW