500

Education, Training, Employment, and Social Services

Budget function 500 primarily covers federal spending within the Departments of Education, Labor, and Health and Human Services for programs that directly provide—or assist states and localities in providing—services to young people and adults. Its activities provide developmental services to low-income children, help fund programs for disadvantaged and other elementary and secondary school students, make grants and loans to postsecondary students, and fund job-training and employment services for people of all ages. CBO estimates that total outlays for function 500 will be $69.8 billion in 2001. Discretionary outlays represent $54.0 billion of that total. The fluctuation in budget authority in recent years is largely attributable to the introduction in 2000 of advance appropriations that shifted significant amounts of funding from 2000 to 2001. Since 1990, function 500 has experienced increases in discretionary outlays in all but one year.

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)	30.0	33.8	36.3	38.2	40.6	39.9	36.5	42.8	46.7	46.6	44.4	61.2
Outlays												
Discretionary	27.9	30.6	34.0	36.5	37.6	38.9	38.5	39.6	42.5	45.1	49.0	54.0
Mandatory	10.9	12.8	11.2	13.5	8.7	15.3	13.5	13.4	12.4	11.3	10.4	15.8
Total	38.8	43.4	45.2	50.0	46.3	54.3	52.0	53.0	55.0	56.4	59.4	69.8
Memorandum:												
Annual Percentage Change in Discretionary Outlays		9.8	11.2	7.2	3.1	3.5	-1.2	3.1	7.3	6.1	8.5	10.3

500-01 Reduce Funding for Title I, Education for the Disadvantaged

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	102	19
2003	372	298
2004	372	365
2005	372	372
2006	372	372
2002-2006	1,591	1,425
2002-2011	3,452	3,286
Relative to Inflated Appropriations		
2002	148	27
2003	578	436
2004	729	654
2005	877	810
2006	1,028	960
2002-2006	3,358	2,888
2002-2011	10,865	10,038

SPENDING CATEGORY:

Discretionary

Title I of the Elementary and Secondary Education Act of 1965 provides two kinds of grants to school districts to fund supplementary educational services for educationally disadvantaged children. Basic grants allocate federal funds on the basis of the number of children who live in families with income below the poverty level in a particular geographic area. Concentration grants provide additional funds to school districts in counties in which the number of poor children exceeds 6,500 or 15 percent of the school-age population. Although Title I distributes funds on the basis of the number of poor students in a district, schools that receive the money may use it to provide services to any students who are performing far below their grade level.

Title I funds reached about 46,000 schools in 2000 and served approximately 13 million children. About 19,000 schools operated schoolwide programs (which benefit all of the children in a specific school), and almost 28,000 schools participated in targeted assistance programs (which must focus the grants on the children most in need of Title I services).

This option would reduce budget authority for basic grants to local educational agencies by 5 percent in 2002 and hold it at that level for 10 years. Implementing the option would save $3.3 billion relative to current appropriations over the 2002-2011 period and $10 billion relative to current appropriations adjusted for inflation. By 2011, program spending would be 21 percent below the 2001 level adjusted for inflation. To direct cuts toward the schools with the least need for Title I services, the eligibility criteria for receiving funding could be altered. Currently, the law restricts Title I basic grant funds to school districts that have at least 2 percent of their children living in families with income below the poverty level and at least 10 poor children. If the Congress raised the lower bound on the criterion for the percentage of children living in poverty (for example, to 5 percent or 10 percent), funding could be maintained at its current level for the school districts that satisfied the more restrictive eligibility criteria.

Some proponents of eliminating federal funding for elementary and secondary education argue that such support represents federal intervention into matters that are primarily of state and local concern. Opponents, however, insist that federal funding augments state and local efforts and ultimately makes them more successful.

The primary argument for reducing Title I funding in particular is that there is little evidence that it improves the long-term academic performance of students who receive its services. Many studies have compared students receiving Title I services with groups of students that are similar by grade and poverty status. Such studies show that program participants do not improve their academic achievement relative to other students. However, supporters of the program maintain that Title I funds help underachieving students in schools that serve many poor children. Advocates also note that such funding is a major federal instrument for fostering school reform, because states applying for the grants must develop standards specifying what public-school children should know and be able to do at various points in their education.

500-02 Reduce Funding to School Districts for Impact Aid

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	74	67
2003	74	73
2004	74	74
2005	74	74
2006	74	74
2002-2006	370	361
2002-2011	740	731
Relative to Inflated Appropriations		
2002	76	68
2003	77	75
2004	79	78
2005	80	80
2006	82	81
2002-2006	393	383
2002-2011	825	814

SPENDING CATEGORY:

Discretionary

The Impact Aid program, authorized under title VIII of the Elementary and Secondary Education Act, provides funds to school districts affected by activities of the federal government. Most of the program's funds pay basic support to districts for so-called federally connected pupils and for school construction in areas where the federal government has acquired a significant portion of the real property tax base, thereby depriving the school district of a source of revenue. Impact Aid funds are also used to support federally connected pupils with disabilities, to maintain schools owned by the Education Department (ED), and to support heavily impacted school districts with large proportions of federally connected pupils and limited fiscal capacity.

For a school district to be eligible for Impact Aid basic support payments, a minimum of 3 percent (or at least 400) of its pupils must be associated with activities of the federal government—for example, pupils whose parents both live and work on federal property (including Indian lands), pupils whose parents are in the uniformed services but live on private property, and pupils who live in federally subsidized low-rent housing. In addition, aid goes to a few districts enrolling at least 1,000 pupils (or 10 percent of enrollment) whose parents work but do not live on federal property. In 2000, approximately 1,400 local education agencies received Impact Aid basic support payments.

This option would restrict Impact Aid to the school districts that are most affected by federal activities—districts with children who live on federal property and have a parent who is in the military or is a civilian federal employee and districts with children who live on Indian lands. It would reduce the basic support paid to eligible school districts, as well as payments made to support federally connected children with disabilities, school construction, and heavily impacted districts. Impact Aid for maintenance of ED-owned schools is used to upgrade and transfer ownership of schools to the school districts; that category of spending would not be affected by this option. These changes would reduce federal outlays by $731 million during the 2002-2011 period relative to current appropriations and by $814 million relative to current appropriations adjusted for inflation. The Clinton Administration's budget for fiscal year 2001 proposed this policy.

Proponents of this option argue that it is appropriate to restrict Impact Aid payments to students whose presence puts the greatest burden on school districts. Opponents argue that eliminating payments for other types of children associated with federal activities could significantly affect certain districts—for example, those in which large numbers of military families live off-base but shop at military exchanges, which do not collect state and local sales taxes.

500-03 Eliminate Funding for Federal Initiatives to Reduce Class Size

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	473	81
2003	1,623	1,136
2004	1,623	1,542
2005	1,623	1,623
2006	1,623	1,623
2002-2006	6,965	6,005
2002-2011	15,080	14,120
Relative to Inflated Appropriations		
2002	483	83
2003	1,668	1,163
2004	1,701	1,601
2005	1,734	1,714
2006	1,767	1,747
2002-2006	7,353	6,308
2002-2011	16,702	15,553

SPENDING CATEGORY:

Discretionary

For academic year 2001-2002, the Congress appropriated $1.6 billion to reduce the size of elementary school classes nationwide. The law also allows school districts to use up to 25 percent of local grants to improve teacher quality. Moreover, districts in which class sizes have already been reduced can use the funds to improve the quality of teachers in the lower grades or to hire more teachers for upper grades. By eliminating funding for the program, the federal government could save $14.1 billion in outlays over the next 10 years relative to current appropriations and $15.6 billion relative to current appropriations adjusted for inflation.

In recent reviews of the scientific evidence for the benefits of small classes, the results of one study, Tennessee's Project STAR, are prominent because of the study's rigorous experimental design. Children entering kindergarten were randomly assigned either to special small classes of between 13 and 17 students or to "regular" classes of between 22 and 26 students. With only a few exceptions, students remained in the same size class to which they were initially assigned through the end of the third grade.

Testing showed that students in the small classes outperformed students in the regular classes on both standardized and curriculum-based tests. In the early grades, the positive effect of small classes on achievement among minority students was twice that for nonminority students. Through eighth grade, students who had been in the small classes showed a decreasing but still significantly higher level of academic achievement than students in the regular classes.

Proponents of eliminating federal funding for class-size initiatives see limitations to Project STAR's success. If education is cumulative, with each year building on what was learned the year before, children assigned to a small class would be expected to pull further away from their counterparts in a regular class for each year they remained in the small class. In fact, the evidence shows such advances for youngsters in small classes only at the end of kindergarten and first grade, not at higher grades. Critics of a policy advocating small class sizes also point to other evidence suggesting that class size must fall to about 15 students before it has an effect. Reducing class sizes to those levels would be quite expensive, and the costs would increase over time. More classrooms would have to be built; new teachers would require services such as staff training; and as they gained experience, those teachers' salaries would increase. Finally, the critics note that strategies such as providing one-on-one or peer tutoring as well as cooperative learning achieve results similar to those gained from reducing class size—but at a fraction of the cost.

Supporters of funding for initiatives to decrease class size find that approach attractive because it moves resources directly to the classroom and to students. Furthermore, many analysts have concluded that enrollment in the early grades in small classes of about 18 or fewer students can have positive effects on a student's academic achievement, compared with enrollment in classes of between 25 and 30 students. Minority students in particular seem to benefit from small classes. In addition, most of the benefits students gain from being in a small class appear to persist into later grades.

500-04 Consolidate and Reduce Funding for Several Elementary and Secondary Education Programs

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	499	43
2003	675	463
2004	675	642
2005	675	675
2006	675	675
2002-2006	3,200	2,499
2002-2011	6,576	5,875
Relative to Inflated Appropriations		
2002	547	48
2003	827	506
2004	962	792
2005	1,097	957
2006	1,237	1,092
2002-2006	4,671	3,396
2002-2011	13,025	10,884

SPENDING CATEGORY:

Discretionary

Current federal programs to aid elementary and secondary education are generally categorical—that is, they focus on specific populations of students with special needs (for example, disabled students or educationally disadvantaged students), on subject areas of high priority to policymakers (such as mathematics or science), or on specific approaches to improving education (for instance, charter schools). The Congress adopted categorical forms of federal aid in certain cases because of a belief that many states would be unable or unwilling to commit funds to those priorities. Categorical programs focusing on education reform and school innovation, for which the Congress appropriated a combined $6.5 billion in fiscal year 2001, could be consolidated under a single block grant. Funds from the grant could be used for any of the purposes previously authorized for the categorical programs, but states would have greater discretion about how the money would be spent.

To reduce federal outlays, the federal government could cut the consolidated block grant for education reform and school improvement by 10 percent of the 2001 funding level and hold spending at that amount over the next 10 years. Doing so would save $5.9 billion during the 2002-2011 period relative to current appropriations and $10.9 billion relative to current appropriations adjusted for inflation. By 2011, this option would result in a program that was 24 percent smaller than the 2001 level adjusted for inflation.

Proponents of block grants for education point out that they give states and local education agencies the flexibility to direct federal aid toward the schools' greatest needs. Block grants can circumvent the administrative requirements accompanying categorical aid programs, which may limit a school's ability to implement comprehensive reform. Block grants also avoid the problems created within a school by a proliferation of categorical programs that may lead to gaps in a child's instructional program in some areas and duplication in others. Moreover, by requiring that funds be clearly associated with the intended beneficiaries, categorical grants may encourage schools to partially segregate children with special needs, track students by achievement level, or perpetuate lower expectations of their performance.

Opponents of education block grants argue that they dilute the effect of federal funding on national educational priorities and provide less assurance than categorical funding that federal aid will be used to meet national objectives. Furthermore, opponents point out that alternative means, such as waivers, are now available to give state and local education agencies increased flexibility in using funds from categorical programs without sacrificing federal priorities.

500-05 Reduce Spending and Increase the Targeting of Funds for Safe and Drug-Free Schools and Communities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	47	5
2003	97	68
2004	97	92
2005	97	97
2006	97	97
2002-2006	434	358
2002-2011	917	841
Relative to Inflated Appropriations		
2002	54	6
2003	117	78
2004	130	115
2005	143	133
2006	156	146
2002-2006	601	478
2002-2011	1,588	1,410

SPENDING CATEGORY:

Discretionary

The Safe and Drug-Free Schools and Communities Act (SDFSCA) funds programs in schools, communities, and institutions of higher education to address the use of illegal substances such as alcohol, cigarettes, and drugs among youth and the related issue of violence in schools. Approximately 97 percent of the nation's school districts receive funding under the act, and generally students in grades 5 through 12 participate in the programs. The wide distribution of SDFSCA funding has led to questions about whether such aid might be more effective if it was focused on areas or groups of people with the greatest need.

In fiscal year 2001, states received $592 million of the program's total funding of $644 million. Half of each state's award is based on its school-age population, and half is based on the number of poor children in the state. The law requires states to distribute 80 percent of their grants to school districts, primarily on the basis of enrollment. The remaining 20 percent of state grants go to the governors for services to groups not covered by the education system, such as incarcerated youth and school dropouts. Little evidence is available to date about whether SDFSCA programs reduce rates of substance use and violence among youth. However, research shows that the programs have been effective in increasing awareness about the consequences of drug use.

This option would reduce funding to the states by 15 percent of the 2001 funding level and require them to direct the remaining funds toward areas or groups of people considered most likely to benefit from such grants. Over the 2002-2011 period, this option would save about $840 million relative to current appropriations and about $1.4 billion relative to current appropriations adjusted for inflation. Implementing this option would result in a program that, by 2011, was 29 percent below the 2001 level adjusted for inflation.

To better target SDFSCA grants, the federal government could change the formula for allocating funds among the states, reduce the number of school districts within states that may receive grants, or target certain age groups within the schools. For instance, federal grant amounts could be tied to a "need" indicator such as state rates of crime or drug use. Similarly, states in their turn could be required to allocate grants to school districts either on the basis of need or through a competitive process. The federal government could also require states to focus funds on children in the earlier grades. Research indicates that prevention programs might be most effective in changing those students' attitudes about drugs and violence.

Focusing SDFSCA funds, as this option provides, could have several different effects. Districts with less crime and fewer drug problems might not receive grants, whereas districts with higher levels of need might receive grants that would be large enough to implement somewhat more comprehensive drug- and violence-prevention programs than are possible with the current level and distribution of federal funds. Yet even in areas with low rates of crime and drug use, prevention programs may serve a proactive function by raising people's awareness of the problem. If such programs were eliminated, drug use and violence might accelerate and lead to even more costly interventions on the part of school systems and communities.

500-06-A Eliminate Interest Subsidies on Loans to Graduate Students

	Outlay Savings (Millions of dollars)
2002	395
2003	575
2004	575
2005	575
2006	575
2002-2006	2,695
2002-2011	5,730

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-06-B and 500-06-C

Federal student loan programs afford students and their parents the opportunity to borrow funds to attend postsecondary schools. Those programs offer three types of loans: "subsidized" loans to students who are defined as having financial need, "unsubsidized" loans to students regardless of need, and loans to parents of students. Two programs provide all three types of loans; they are the Federal Family Education Loan Program, in which loans made by private lenders are guaranteed by the federal government, and the Ford Federal Direct Student Loan Program, in which the government makes the loans through schools. With all of the loans, borrowers benefit because the interest rate charged is lower than the rates most of them could secure from alternative sources. With subsidized loans, borrowers benefit further because the federal government pays the interest on the loans while students are in school and during a six-month grace period after they leave.

Federal costs could be reduced by limiting eligibility for subsidized loans to undergraduate students. Graduate students could substitute unsubsidized loans for the subsidized loans they had received previously. That change would reduce federal outlays by $395 million in 2002 and $5.7 billion over the 2002-2011 period.

Restricting subsidized loans to undergraduate students would direct funds toward achieving the goal of making an undergraduate education affordable. Graduate students do not constitute the federal government's particular focus. Under this option, graduate students who took unsubsidized loans to replace the subsidized loans they had lost would ultimately be responsible for somewhat higher loan payments. However, the federal student loan programs have several options for making repayment manageable for students who have high loan balances or difficult financial circumstances.

Nevertheless, graduate students often amass large student loan debts because of the number of years of schooling required for their degrees. Without the benefit of interest forgiveness while they were enrolled in school, their debt would be substantially larger when they entered the repayment period because the interest on the amounts they had borrowed over the years would be added to their loan balance.

500-06-B Increase Origination Fees for Unsubsidized Loans to Students and Parents

	Outlay Savings (Millions of dollars)
2002	225
2003	325
2004	280
2005	125
2006	130
2002-2006	1,085
2002-2011	1,795

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-06-A and 500-06-C

The federal government recoups part of the cost of insuring student loans by collecting 3 percent of the face value of each loan from students and their parents as an origination fee. (Guaranty agencies may collect an additional 1 percent of the face value as an insurance fee to replenish the federal reserve fund they manage. Since 1998, few agencies have charged that fee, but they would do so again were the reserve fund to fall below a certain level.) The fees are charged on subsidized, unsubsidized, and PLUS loans (Parent Loans to Undergraduate Students).

Under this option, the origination and insurance fees in the Federal Family Education Loan Program (FFELP) and the origination fee in the Ford Federal Direct Student Loan Program would be set equal to 4 percent. To implement the change, the Congress would have to require guaranty agencies to collect the 1 percent insurance fee on all FFELP loans and the Department of Education to collect a 4 percent fee on all direct loans. Those changes would reduce program outlays by $225 million in 2002 and $1.8 billion over the 2002-2011 period.

An argument for the change is that even with the higher origination fees, many students would still benefit substantially from the loans, in part because the government guarantees them. The guarantee means that lenders are willing to make loans to students who do not have a credit history and to make them at interest rates below those available on most private loans. Furthermore, during the first five years of repayment, many borrowers can subtract the interest on the loans from their income for the purpose of calculating federal income taxes.

Increasing the origination fees, however, would reduce the net proceeds from any given loan. As a result, students would need to secure larger loans to finance the same amount of education. That could pose a problem for many students who were already borrowing the maximum allowed by law.

500-06-C Restrict Eligibility for Subsidized Student Loans by Including Home Equity in the Determination of Financial Need

	Outlay Savings (Millions of dollars)
2002	70
2003	100
2004	100
2005	100
2006	100
2002-2006	470
2002-2011	970

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

500-06-A and 500-06-B

The Higher Education Amendments of 1992 eliminated home equity from consideration in determining how much a student's family is expected to contribute to cover educational expenses. That made it easier for many students to obtain subsidized student loans. The amount a family is expected to contribute is determined by what is essentially a progressive tax formula. In effect, federal calculations "tax" family income and assets above the amount assumed to be required for a basic standard of living. Since 1992, the definition of assets has excluded home equity for all families and excluded all assets for applicants whose income is below $50,000.

Under this option, home equity would be included in calculating a family's need for financial aid for postsecondary education. In addition, the income threshold under which most families are not asked to report their assets would be lowered from $50,000 to its previous level of $15,000. Home equity would be "taxed," as other assets are now, at rates of up to about 5.6 percent after a deduction for allowable assets. The change would result in fewer students qualifying for subsidized loans and more students qualifying for subsidized loans of smaller amounts. Overall, by including home equity, outlays could be reduced by about $70 million in 2002 and $970 million during the 2002-2011 period.

Under this option, students who lost access to subsidized loans could take unsubsidized loans to finance the family's expected contribution. That approach would cause relatively little difficulty for families' budgets because the interest payments on unsubsidized loans can be postponed while the student is in school. The interest is then simply added to the accumulated loan balance when the student leaves school and begins repayment.

Nonetheless, students who shifted to taking out unsubsidized loans (or larger unsubsidized loans) would leave school with higher loan balances. That outcome would make repaying the loans more difficult for some students. And for many families, having to determine the value of their home and other assets would complicate the loan application process.

500-07 Reduce Special Allowances Paid to Lenders in the Student Loan Program

	Outlay Savings (Millions of dollars)
2002	255
2003	340
2004	0
2005	0
2006	0
2002-2006	595
2002-2011	595

SPENDING CATEGORY:

Mandatory

RELATED CBO PUBLICATIONS:

Letter to the Honorable Pete V. Domenici regarding the profitability of federally guaranteed student loans, March 30, 1998, and *Addendum to "The Profitability of Federally Guaranteed Student Loans,"* April 2, 1998.

The largest federal student loan program is the Federal Family Education Loan Program, which guarantees 98 percent reimbursement on defaulted loans made by private lenders to eligible students. Under the program, students and the federal government together pay lenders an interest rate each year that is based on changes in a reference rate determined in the financial markets. The federal payments are called special-allowance payments; their purpose is to approximate a fair market return to lenders while subsidizing the cost to students of financing their education. One such payment, which was added by the Higher Education Amendments of 1998 and modified in 1999, applies to subsidized and unsubsidized loans made after October 1, 1998, and before July 1, 2003. Under that provision, the federal government will make payments to lenders between October 1, 2000, and July 1, 2003, that CBO estimates will average about 0.37 percentage points. This option would eliminate those payments on all new subsidized and unsubsidized loans. Savings would total $255 million in 2002 and $595 million over the 2002-2003 period, at the end of which the provision would expire.

An argument for reducing the special-allowance payment is that in most cases, it is not needed for lenders to achieve a fair market rate of return on their loans. By using a reference rate that closely mirrors the interest rate that lenders pay on their own debts, the government has assured lenders a stable net income from student loans. Moreover, nearly the entire loan amount is guaranteed by the federal government. In addition, a 1998 study by the Department of the Treasury concluded that even with a yield that was 0.5 percentage points lower on loans made under the program, lenders would earn returns that, on average, would be sufficient to make the business attractive.

The argument for retaining the payment is that without it, some lenders would, indeed, receive unacceptably low rates of return and leave the program. Such thinning of the lender ranks could create difficulties for financial aid officers who administer student financial aid at postsecondary institutions and for students who seek loans. In general, student loans are quite small compared with, for example, mortgage loans, but the costs of servicing them are not proportionately lower. As a result, the interest rate necessary to yield sufficient income to cover the costs of servicing must be higher. Furthermore, servicing costs vary by the size of the loan and the characteristics of the student, so reducing the profit margin for lenders might induce them to stop making loans to some students. Another risk of paying lenders less than a fair market rate of return is that they might stop investing in improving the quality of loan servicing or stop adapting their package of loan services to the particular needs of the institutions that participate in the loan program.

500-08 Eliminate Administrative Fees Paid to Schools in the Campus-Based Student Aid and Pell Grant Programs

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	163	18
2003	163	158
2004	163	163
2005	163	163
2006	163	163
2002-2006	815	666
2002-2011	1,630	1,481
Relative to Inflated Appropriations		
2002	167	19
2003	170	162
2004	173	170
2005	176	173
2006	180	177
2002-2006	866	701
2002-2011	1,817	1,636

SPENDING CATEGORY:

Discretionary

In two types of federal student aid programs, the government pays schools to administer the programs or to distribute the funds, or both. In campus-based aid programs, which include Federal Supplemental Educational Opportunity Grants, Federal Perkins Loans, and Federal Work-Study Programs, the government distributes funds to institutions that in turn award grants, loans, and jobs to qualified students. Under a statutory formula, institutions may use up to 5 percent of program funds for administrative costs. Similarly, in the Federal Pell Grant Program, the schools distribute the funds, although eligibility is determined solely by federal law. The Higher Education Act provides for a federal payment of $5 per Pell grant to reimburse schools for a share of their costs of administering the program.

Relative to current appropriations, the federal government could save about $143 million a year if schools were not allowed to use federal funds from the campus-based aid programs to pay for administrative costs. The government could save another $20 million if the $5 payment to schools in the Pell Grant program was eliminated. Together, those options would produce savings of $18 million in 2002 and $1.5 billion over the 2002-2011 period relative to current appropriations. This option would save $1.6 billion over the next 10 years relative to current appropriations adjusted for inflation.

Arguments can be made both for eliminating the administrative payments and for retaining them. On the one hand, institutions benefit significantly from participating in federal student aid programs even without the payments because the aid makes attendance at the schools more affordable. In 2001, students will receive an estimated $12.4 billion in federal funds under the Pell Grant and campus-based aid programs.

On the other hand, the institutions do, indeed, incur costs for administering the programs. Furthermore, if the federal government does not pay those expenses, schools may simply pass along the costs to students in the form of higher tuition or fees.

500-09 Eliminate the Leveraging Educational Assistance Partnership Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	55	11
2003	55	55
2004	55	55
2005	55	55
2006	55	55
2002-2006	275	231
2002-2011	550	506
Relative to Inflated Appropriations		
2002	56	11
2003	57	56
2004	58	58
2005	60	59
2006	61	60
2002-2006	292	244
2002-2011	613	560

SPENDING CATEGORY:

Discretionary

The Leveraging Educational Assistance Partnership (LEAP) program, formerly the State Student Incentive Grant program, helps states provide financially needy postsecondary students with grant and work-study assistance while they attend either academic institutions or vocational schools. States must match federal funds at least dollar for dollar and also meet maintenance-of-effort criteria. Unless excluded by state law, all public and private nonprofit postsecondary institutions in a state are eligible to participate in the LEAP program.

Relative to current appropriations, eliminating the program would save $506 million over the 2002-2011 period. Relative to current appropriations adjusted for inflation, the 10-year savings would total $560 million. The extent of the actual reduction in student assistance would also depend on the responses of states, some of which would probably make up at least part of the lost federal funds.

Proponents of eliminating this program argue that it is no longer needed to encourage states to provide more student aid. When the LEAP program was first authorized in 1972, only 28 states had student grant programs; now, all 50 states provide such grants.

An argument against eliminating the LEAP program is that not all states would increase their student aid appropriations to make up for the lost federal funding and some might even reduce them. In that case, some students who received less aid might not be able to enroll in college or might have to attend a less expensive school.

500-10 End New Funding for Perkins Loans

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	100	10
2003	100	97
2004	100	100
2005	100	100
2006	100	100
2002-2006	500	407
2002-2011	1,000	907
Relative to Inflated Appropriations		
2002	102	10
2003	104	99
2004	106	104
2005	108	106
2006	110	108
2002-2006	531	429
2002-2011	1,115	1,002

SPENDING CATEGORY:

Discretionary

The federal government provides student loans through three programs: Federal Family Education Loans, Ford Federal Direct Student Loans, and Federal Perkins Loans (formerly National Defense Student Loans). The Perkins Loan program is the smallest, with allocations made directly to approximately 2,000 postsecondary institutions. Financial aid administrators at those schools then determine which eligible students receive Perkins loans. During the 2000-2001 academic year, approximately 700,000 students received such loans.

The money for Perkins loans comes from an institutional revolving fund, totaling approximately $1.1 billion in 2001, that has four sources: collections by the schools of payments on prior year student loans ($945 million in 2000), federal payments for loan cancellations granted in exchange for teaching in high-need areas or for military or public service ($60 million in 2001), federal contributions from new appropriations ($100 million in 2001), and institutional matching contributions that for each school must equal at least one-third of the federal contribution.

Eliminating new appropriations for federal contributions would lower outlays by $907 million relative to current appropriations during the 2002-2011 period and by $1 billion relative to current appropriations adjusted for inflation. The extent of the reduction in funds for student loans would depend on the responses of postsecondary institutions, some of which would make up part or all of the lost federal money. If institutions made up none of the lost federal funds but continued to contribute to the program at the level of their previous matching share, approximately 64,000 fewer Perkins loans would be made.

Reflecting the view that the main goal of federal student aid is to eliminate financial barriers to postsecondary education, the primary justification for this option is that the program may be failing to provide equal access to students with equal financial need. Federal contributions are allocated, first, on the basis of an institution's 1985 allocation and, second, on the basis of the financial need of its students. Because campus-based aid is tied to specific institutions, students with greater need at poorly funded schools may receive less than those with less need at well-funded institutions.

Eliminating new funds for Perkins loans, however, would reduce the discretion of postsecondary institutions in packaging aid to address the special situations of some students. It would also reduce total available aid. Moreover, Perkins loans disproportionately help students at private nonprofit institutions (whose students get almost half of the aid, compared with about 20 percent of Pell Grant aid). Thus, cutting Perkins loans would make that type of school less accessible to financially needy students.

500-11 Reduce Funding for the Arts and Humanities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	125	80
2003	125	110
2004	180	175
2005	180	180
2006	180	180
2002-2006	790	725
2002-2011	1,690	1,625
Relative to Inflated Appropriations		
2002	145	90
2003	180	145
2004	270	255
2005	300	290
2006	335	325
2002-2006	1,230	1,105
2002-2011	3,445	3,270

SPENDING CATEGORY:

Discretionary

The federal government subsidizes various activities related to the arts and humanities. In 2001, combined funding for several programs totaled nearly $1.2 billion; it comprised federal appropriations for the Smithsonian Institution ($456 million), the Corporation for Public Broadcasting ($360 million), the National Endowment for the Humanities ($120 million), the National Endowment for the Arts ($99 million), the National Gallery of Art ($76 million), the John F. Kennedy Center for the Performing Arts ($34 million), and the Institute of Museum Services ($25 million).

Cutting funding for those programs by 15 percent of the fiscal year 2001 appropriation and holding spending at that nominal level would reduce federal outlays over the 2002-2011 period by $1.6 billion relative to the current funding level and by $3.3 billion after adjusting for inflation. By 2011, spending on these programs would be 33 percent below the 2001 level adjusted for inflation if this option were implemented. (Savings from a reduction in funding for the Corporation for Public Broadcasting would not be realized until 2004 because the program receives its appropriations two years in advance.) The actual effect on arts and humanities activities would depend in large part on the extent to which other funding sources—states, localities, individuals, firms, and foundations—increased their contributions.

Some proponents of reducing or eliminating funding for the arts and humanities argue that support of such activities is not an appropriate role for the federal government. Other advocates of cuts suggest that the expenditures are particularly unacceptable when programs addressing central federal concerns are not being funded fully. Some federal grants for the arts and humanities already require nonfederal matching contributions, and over half of all museums charge or suggest that patrons pay an entrance fee. Those practices could be expanded to accommodate a reduction in federal funding.

However, critics of cuts in funding contend that alternative sources would be unlikely to fully offset the drop in federal subsidies. Subsidized projects and organizations in rural or low-income areas might find it especially difficult to garner increased private backing or sponsorship. Thus, a decline in government support, opponents argue, would reduce activities that preserve and advance the nation's culture and that introduce the arts and humanities to people who might not otherwise have access to them.

500-12 Eliminate Funding for the Senior Community Service Employment Program

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	440	80
2003	440	400
2004	440	440
2005	440	440
2006	440	440
2002-2006	2,200	1,800
2002-2011	4,400	4,000
Relative to Inflated Appropriations		
2002	450	80
2003	460	415
2004	465	460
2005	475	470
2006	485	480
2002-2006	2,335	1,905
2002-2011	4,905	4,425

SPENDING CATEGORY:

Discretionary

The Senior Community Service Employment Program (SCSEP) funds part-time jobs for people age 55 and older who are unemployed and who meet income eligibility guidelines. To be eligible to participate in the program in 2000, an individual's annual income had to be below $10,440, which was 125 percent of the federal poverty guideline for a person living alone. SCSEP grants are awarded to several nonprofit organizations, the U.S. Forest Service, and state agencies. The sponsoring organizations and agencies pay participants to work in part-time community service jobs, up to a maximum of 1,300 hours per year.

SCSEP participants work in schools, hospitals, and senior citizen centers and on beautification and conservation projects. They are paid the higher of the federal or state minimum wage or the local prevailing rate of pay for similar employment. Participants also receive annual physical examinations, training, personal and job-related counseling, and assistance to move into private-sector jobs when they complete their projects.

Eliminating SCSEP would save $4 billion relative to current appropriations over the 2002-2011 period and $4.4 billion relative to current appropriations adjusted for inflation. Opponents of the program maintain that it offers few benefits aside from income support and that the presumed value of the work experience gained by SCSEP participants would generally be greater if the experience was provided to equally disadvantaged young people, who have longer careers over which to benefit. In addition, the costs of producing the services now provided by SCSEP participants could be borne by the organizations that benefit from their work; under current law, those organizations bear only 10 percent of such costs. That shift would ensure that only those services that were most highly valued would be provided.

SCSEP, however, is the major federal jobs program aimed at low-income older workers, providing jobs for nearly 100,000 of them in 1998. Eliminating the program could cause hardship for older workers who were unable to find comparable unsubsidized jobs. In general, older workers are less likely than younger workers to be unemployed, but those who are take longer to find work. Moreover, without SCSEP, community services might be reduced if nonprofit organizations and states were unwilling or unable to increase expenditures to offset the loss of federal funds.

500-13 Eliminate Funding for the National and Community Service Act

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	445	50
2003	460	150
2004	470	315
2005	475	370
2006	475	420
2002-2006	2,325	1,305
2002-2011	4,735	3,595
Relative to Inflated Appropriations		
2002	455	55
2003	485	155
2004	500	330
2005	515	390
2006	530	450
2002-2006	2,485	1,380
2002-2011	5,325	3,970

SPENDING CATEGORY:

Discretionary

As a reward for providing community service, students may receive aid from the federal government to attend postsecondary schools through the National and Community Service Act. The act funds the Corporation for National and Community Service, which administers the AmeriCorps Grants Program, the National Civilian Community Corps (NCCC), Learn and Serve America, and the Points of Light Foundation, with AmeriCorps receiving the majority of the total appropriation. Those programs provide assistance for education, public safety, the environment, and health care, among other services. State and local governments and private enterprises contribute additional funds to AmeriCorps to carry out service projects that, in many cases, build on existing federal, state, and local programs.

In addition to providing financial resources, the corporation recruits participants to carry out service projects. AmeriCorps and NCCC provide participants with an educational allowance, a stipend for living expenses, and, if needed, health insurance and child care. Learn and Serve America participants generally do not receive stipends or education awards but may receive academic credit toward their degrees.

Eliminating federal funding for programs funded under the National and Community Service Act would save $3.6 billion over the 2002-2011 period relative to current appropriations and $4 billion relative to current appropriations adjusted for inflation. (The estimate includes costs associated with terminating the programs.) Alternatively, some of the savings from eliminating the programs could be redirected to the Federal Pell Grant Program, which more closely targets low-income students.

Some critics who favor eliminating the programs maintain that community service should be voluntary rather than an activity for which a person is paid. An additional justification for this option is based on the view that the main goal of federal aid to students should be to provide access to postsecondary education for people with low income. Because participation in the programs is not based on family income or assets, funds do not necessarily go to the poorest students.

Supporters of the programs argue, however, that these programs enable many students to attend postsecondary schools. They also provide opportunities for participants to engage in national service, which can promote a sense of idealism among young people. In addition to providing valuable services, these programs broaden the network of sponsors and strategies and encourage nonfederal support for service projects.

500-14 Reduce Funding for Head Start

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to Current Appropriations		
2002	933	320
2003	933	865
2004	933	916
2005	933	924
2006	933	924
2002-2006	4,665	3,948
2002-2011	9,330	8,569
Relative to Inflated Appropriations		
2002	1,039	368
2003	1,165	1,035
2004	1,289	1,209
2005	1,413	1,340
2006	1,542	1,465
2002-2006	6,449	5,416
2002-2011	16,151	14,697

SPENDING CATEGORY:

Discretionary

Since 1965, Head Start has funded grants to local agencies to provide comprehensive services to foster the development of preschool children from low-income families. The services supported by Head Start address the health, education, and nutrition of the children as well as their social behavior. Funds are awarded to about 1,500 grantees at the discretion of the Secretary of Health and Human Services, using state allocations determined by formula. Grantees must contribute 20 percent of program costs from nonfederal funds unless they obtain a waiver. In 2000, the program served about 877,000 children, approximately 60 percent of whom were 4 years old. The average cost per child in Head Start that year was about $6,000 (compared with $7,600 per pupil spent by public elementary and secondary schools).

Reducing the appropriation for Head Start in 2002 and in subsequent years to its level for program year 2000-2001 would reduce federal costs by $8.6 billion relative to current appropriations over the 2002-2011 period and by nearly $15 billion relative to current appropriations adjusted for inflation. By 2011, program spending would be 29 percent below the 2001 level adjusted for inflation.

The primary argument for reducing funding for Head Start is that there is little evidence of the program’s long-term effectiveness. The evidence that does exist suggests that Head Start provides measurable short- and medium-term improvements in the advancement of its participants but that those gains fade over the long term. Although the program produces gains in children's intellectual, emotional, and social development after they have been in it for a year, those gains diminish and disappear as participants move through elementary school. Some model early-childhood education efforts have provided evidence of long-term improvement in the lives of participants, but those projects were more intensive—and expensive—than Head Start and were initiated several decades ago, when the social environment of the country, especially in urban areas, was different. Furthermore, Head Start enrollment and funding have expanded rapidly during the 1990s, and some people question the ability of the program to effectively absorb the additional funds and students. Concerns have been raised as well about the quality of the program's services, including the limited qualifications of some staff.

The main argument against reducing the appropriation for Head Start is that it appears to modestly lessen the probability that participants will be placed in special education programs and to increase the likelihood that students will be promoted to higher grades. Proponents also argue that Head Start enrolls the most severely disadvantaged children and consequently should be credited with preventing participants from falling even further behind in their cognitive, social, and emotional development before they enter elementary school. An additional argument for not cutting Head Start funding is that the program has taken several steps to improve the quality of services that its grantees provide. For example, nearly 50 percent of the increase in appropriations for 2001 must be used for quality improvement activities. A new data collection system is also being developed to produce longitudinal data on a nationally representative sample of participants.

500-15 Reduce the 50 Percent Floor on the Federal Share of Foster Care and Adoption Assistance Payments

	Savings (Millions of dollars) Budget Authority	Outlays
2002	115	95
2003	125	125
2004	135	135
2005	145	145
2006	155	155
2002-2006	675	655
2002-2011	1,650	1,615

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

500-16

The Foster Care and Adoption Assistance programs are entitlement programs required of states that participate in Temporary Assistance for Needy Families (TANF). Foster Care maintenance payments support eligible children who must reside in foster care homes or facilities. Maintenance payments for Adoption Assistance are made to parents who adopt eligible children with special needs, as defined by the states.

The federal government and the states jointly pay for the benefits provided by the two programs. The state and federal shares are based on the federal matching rate for medical assistance programs, which depends on a state's per capita income. Higher-income states pay for a larger share of program benefits than do lower-income states. Currently, the federal share for the Foster Care and Adoption Assistance programs can vary between 50 percent and 83 percent. In fiscal year 2002, the federal government will pay a 50 percent share in 12 jurisdictions: Colorado, Connecticut, Delaware, the District of Columbia, Illinois, Maryland, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, and New York.

This option would lower the floor on the federal share of benefits from 50 percent to 45 percent. As a result, the federal matching rate for six of the 12 jurisdictions would fall by the full five percentage points. The reductions for the other six states would be smaller because their matching rates, as calculated by the federal formula, would be above the proposed floor. The Congressional Budget Office estimates that this option would save $95 million in 2002 and about $1.6 billion through 2011. Those amounts assume that states would partially offset their higher costs by reducing benefits.

Under this option, state and federal shares of payments would better reflect states' per capita income. Higher-income states that chose to be relatively generous would become responsible for a larger share of their higher benefits than would lower-income states.

In part, however, higher incomes and benefits in the affected jurisdictions reflect higher costs of living and not simply greater wealth and generosity. To accommodate the drop in funding, the jurisdictions would have to reduce Foster Care and Adoption Assistance benefits, cut spending for other services, or raise taxes. If, as CBO's estimates assume, states chose to compensate for their higher costs by partially reducing benefits, the programs' beneficiaries would be adversely affected.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including Foster Care and Adoption Assistance—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the Foster Care and Adoption Assistance programs to make such changes, this option could constitute an unfunded federal mandate on those jurisdictions under the law.

500-16 Reduce the Federal Matching Rate for Administrative and Training Costs in the Foster Care and Adoption Assistance Programs

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2002	160	130
2003	170	165
2004	180	180
2005	190	190
2006	205	200
2002-2006	905	865
2002-2011	2,130	2,075

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

500-15

The Foster Care and Adoption Assistance programs provide benefits and services to eligible low-income children and families. The federal government pays 50 percent of most administrative costs for the programs, including those for child placement services, and states and local governments pay the remaining share. However, the costs of certain activities are matched at higher rates to induce local administrators to undertake more of them than they would if costs were matched at the 50 percent rate. For example, the federal government pays 75 percent of the costs of training administrators and participating parents.

Reducing the matching rates to 50 percent for all administrative and training expenses in the Foster Care and Adoption Assistance programs would decrease federal outlays by $130 million in 2002 and by almost $2.1 billion over the 2002-2011 period.

Given that the matching rate for training and related expenses has been in place for many years, it is unclear whether states require the higher rate to provide those services. Therefore, reducing the matching rate to 50 percent would shed some light on states' willingness to pay a larger share of those costs, as well as bring the matching rate in line with that for administrative expenses. However, states might respond to this option by reducing their administrative efforts, which could raise program costs and offset some of the federal savings. Specifically, states might make less of an effort to eliminate waste and abuse in payments to providers. Alternatively, this proposal might encourage states to provide less training for administrators and prospective foster and adoptive parents or to reduce the payments and other services that the programs offer.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including Foster Care and Adoption Assistance—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the Foster Care and Adoption Assistance programs to make such changes, this option could constitute an unfunded federal mandate on those jurisdictions under the law.