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 individuals. Its activities include making developmental services available to low-income children, helping to fund programs for disadvantaged and other elementary and secondary school students, making grants and loans to postsecondary students, and funding job-training and employment services for people of all ages. CBO estimates that total outlays for function 500 will be $79 billion in 2003. Discretionary outlays represent more than $71 billion of that total. Since 1990, function 500 has experienced increases in discretionary outlays in all but one year.

Federal Spending, Fiscal Years 1990-2003 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Budget Authority (Discretionary)	30.0	33.8	36.3	38.1	40.6	39.9	36.5	42.8	46.7	46.6	44.4	61.3	71.3	71.7
Outlays														
Discretionary	27.9	30.6	34.0	36.5	37.6	38.9	38.5	39.6	42.5	45.1	48.9	54.3	62.7	71.4
Mandatory	9.3	10.6	8.7	10.9	5.7	12.1	9.9	9.3	8.0	5.5	4.8	2.9	7.8	7.7
Total	37.2	41.2	42.7	47.4	43.3	51.0	48.3	49.0	50.5	50.6	53.8	57.1	70.5	79.1
Memorandum: Annual Percentage Change in Discretionary Outlays	n.a.	9.8	11.2	7.2	3.0	3.6	-1.2	3.1	7.3	6.1	8.5	10.9	15.6	13.9

Note: n.a. = not applicable.

500-01—Discretionary

Reduce Funding to School Districts for Impact Aid

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	127	129	132	135	138	661	1,397
Outlays	119	125	130	134	137	646	1,379

The Impact Aid program, authorized under title VIII of the Elementary and Secondary Education Act, provides money to school districts that are affected by activities of the federal government. Most of the program's funds are used to make basic support payments to districts for so-called federally connected students (such as those living on Indian land or military bases). Impact Aid funds are also used to maintain schools owned by the Department of Education and to help pay for school construction in areas where the federal government has acquired a significant portion of the real property tax base, thus depriving the school district of a source of revenue.

In 2003, approximately 1,300 local education agencies will receive basic support payments from the Impact Aid program. For a school district to be eligible for those payments, a minimum of 3 percent—or at least 400—of its students must be associated with activities of the federal government. The amount of a school district's basic support payments is based on a grant formula that considers the district's population of "Type A" and "Type B" students. Type A students include those living on Indian land as well as students living on federal land whose parents are either employed on federal land, are members of the armed forces, or are employees of a foreign government (such as embassy personnel). Type B students include children whose parents are in the military services but who live on private property as well as children who reside in federally subsidized low-rent housing. In addition, aid goes to a few districts in which 10 percent—or at least 1,000—of the students have parents who work but do not live on federal property. Those children are also classified as Type B students.

This option would focus Impact Aid on the school districts that are most affected by federal activities by eliminating support for Type B students. Instead, a school district's basic support payments would be based solely on its enrollment of Type A students. That change would reduce federal outlays by $119 million in 2004 and by $646 million over the 2004-2008 period.

Proponents of this option argue that it is appropriate to restrict Impact Aid payments to cover only those 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.

RELATED OPTION: 050-27

500-02—Discretionary

Repeal the Safe and Drug-Free Schools and Communities Act

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	480	489	500	510	522	2,501	5,287
Outlays	246	429	491	509	520	2,195	4,701

The Safe and Drug-Free Schools and Communities Act (SDFSCA) funds programs to discourage the use of illegal substances—such as alcohol, cigarettes, and drugs—among young people and to address the related issue of violence in schools. States get SDFSCA funding on the basis of their school-age population and number of poor children. In 2002, that funding totaled $472 million.

States distribute SDFSCA funds to school districts in the form of grants that can be used at the discretion of local administrators. Some 97 percent of the nation's school districts receive those grants. The SDFSCA program stipulates that the money go toward activities that address violence and drug abuse in schools, but it offers little guidance about what constitutes an effective use of those funds. Moreover, little evidence exists about what activities reduce violence and drug abuse among young people.

This option would eliminate payments to states under the SDFSCA. That change would save $246 million in outlays next year and a total of about $2.2 billion over the 2004-2008 period.

Advocates of this option might argue that the activities supported by the SDFSCA do not appear to be effective. A 2001 RAND report concluded that those activities have shown little success in reducing the incidence of violence and drug abuse in schools. Furthermore, although violence and drug abuse in general are pressing societal issues, they are problems that rarely occur on school grounds. Despite the occasional well-publicized incident, studies show that schools are among the safest places in the country, on average, and that drug use occurs infrequently on school property. In addition, rates of violent injury on school grounds have not changed significantly since the SDFSCA was enacted in 1986.

Critics of this option would argue that prevention efforts such as those funded by the SDFSCA may serve a proactive function by raising people's awareness of the problems of drug abuse and violence. If such activities were eliminated, drug use and violence might accelerate and lead to even more costly interventions on the part of school systems and communities.

500-03—Mandatory

Eliminate Interest Subsidies on Loans to Graduate Students

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	625	950	985	1,010	1,030	4,600	10,005

Federal student loan programs give students and their parents the opportunity to borrow funds to pay for postsecondary education. Those programs offer "subsidized" loans to students who are defined as having financial need and "unsubsidized" loans to students regardless of need. Two programs provide both types of loans: the Federal Family Education Loan Program, in which loans made by private lenders are guaranteed by the federal government; and the William D. Ford Federal Direct Loan Program, in which the government makes loans through schools. Borrowers of federal student loans benefit because the interest rates that they are charged are lower than the rates that most of them could secure from alternative sources. Borrowers of subsidized loans benefit further because the federal government forgives interest on those loans while students are in school and for six months afterward.

This option would reduce federal costs by restricting eligibility for subsidized loans only to undergraduate students. Doing so would lower federal outlays by $625 million in 2004 and by $4.6 billion over the 2004-2008 period.

Restricting subsidized loans only to undergraduate students would direct a larger share of student aid funding to those students than is now the case. Supporters of that shift would argue that the federal government's primary role in higher education is to make such education available to all high school graduates. In their view, graduate students have already achieved the success not available to many high school graduates. Opponents of such a shift in funding would argue that supporting graduate students is an equally important role of the federal government because those students are the ones most likely to make scientific, technological, and other advances that will benefit society as a whole.

Under this option, graduate students who lost access to subsidized loans could take out unsubsidized federal loans of the same amount and still benefit from below-market interest rates. 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. However, the federal student loan programs have several options for making repayment manageable for students who have high loan balances or difficult financial circumstances.

RELATED OPTION: 500-04

500-04—Mandatory

Raise Interest Rates on Federal Student Loans

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	240	360	515	735	815	2,665	7,090

Under the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan Program, students have the opportunity to borrow money for postsecondary education—from lenders and from the government, respectively—at below-market interest rates. The rate that students are charged on loans from those programs during the repayment period equals the interest rate that the government pays on 91-day Treasury bills plus 2.3 percentage points (with the total rate not to exceed 8.25 percent). For the 2002-2003 school year, that rate totals 4.06 percent. Beginning in July 2006, students' interest rate will be fixed at 6.8 percent.

Lenders that participate in the FFEL program usually receive a higher interest rate on federal loans than students pay, with the federal government making up the difference. Their rate equals either the student rate or the interest rate on commercial paper issued by financial institutions plus 2.34 percentage points, whichever is higher. Even if their rate is lower than market interest rates, lenders are willing to make Federal Family Education loans because the government guarantees repayment of those loans.

This option would raise students' interest rate on federal loans from both programs by calculating that rate using the formula for lenders in the FFEL program. That change would boost students' interest rate by an average of about 0.15 percentage points before the planned increase in July 2006 and by 0.5 percentage points afterward. Their rate would still be capped at 8.25 percent, however, and the government would continue to make an additional payment to lenders when the lender-rate formula exceeded that cap. This option would reduce federal outlays by $240 million in 2004 and by a total of almost $2.7 billion over five years.

For most students, the higher interest rate would still be lower than the rates available on loans from alternative sources. Furthermore, federally guaranteed student loans have attractive repayment options and cost-reducing incentives not available elsewhere. However, even a small increase in that interest rate would raise the already high costs that many student face for postsecondary education. Thus, it could discourage some students from continuing their education.

RELATED OPTIONS: 500-03, 500-05, 500-06, and 500-07

500-05—Mandatory

Increase Up-Front Fees on Unsubsidized Loans to Dependent Students and Their Parents

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	75	85	50	20	20	250	350

In the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program, the government recoups part of its costs by collecting up-front fees on each loan to students or their parents. Those fees —which are generally 3 percent of the face value of the loan—are charged on subsidized and unsubsidized loans to dependent and independent students as well as on PLUS loans to parents.

This option would raise those fees to 4 percent for unsubsidized loans to dependent students and PLUS loans in both programs. That increase would save the programs a total of $75 million in 2004 and $250 million over the 2004-2008 period.

Supporters of this option argue that even with higher fees, many families would still benefit substantially from federal student loans. Moreover, because the option would affect only unsubsidized loans to dependent students and PLUS loans to parents, it would produce savings without affecting the value of loans to independent students (who generally have fewer financial resources than dependent students do) or the value of subsidized loans to the neediest dependent students.

Critics of this option counter that raising up-front fees would reduce the net proceeds that students received from any given loan. Thus, it would add to the already high education costs that many students face and could cause some of them to forgo or drop out of postsecondary school.

RELATED OPTIONS: 500-04 and 500-06

500-06—Mandatory

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

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	60	90	95	95	95	435	910

The Higher Education Amendments of 1992 eliminated home equity from consideration in determining how much a student's family is expected to contribute for education expenses. That change made it easier for many students to obtain subsidized student loans. The amount a family is expected to contribute depends on its income and assets. Since 1992, the definition of assets has excluded home equity for all families and has excluded all assets for applicants with annual family income below $50,000.

This option would once again include home equity in calculating a family's need for financial aid for postsecondary education, treating home equity as other assets are treated now. In addition, the income threshold under which all assets are excluded would decline from $50,000 per year to its previous level of $15,000. Those changes would mean that fewer students qualified for subsidized loans, and those who did qualify would get smaller loans, on average. Overall, including home equity in loan calculations could reduce outlays by $60 million in 2004 and $435 million during the 2004-2008 period.

Under this option, students who lost access to subsidized loans could take out unsubsidized federal loans to finance their families' greater 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 from subsidized to unsubsidized loans (or to larger unsubsidized loans) would leave school with higher loan balances. That addition 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. Furthermore, families' larger expected contribution could limit their access to discretionary student aid, including Pell grants.

RELATED OPTIONS: 500-04 and 500-05

500-07—Mandatory

Eliminate the Floor on Lenders' Yields from Federally Guaranteed Student Loans

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	340	545	880	1,280	1,425	4,470	12,135

Under the Federal Family Education Loan (FFEL) Program, which guarantees loans made by lenders to eligible students, borrowers pay lenders an interest rate (called the student rate) that is determined once a year according to a formula set in law. The interest rate that lenders are supposed to receive is calculated quarterly using another formula. If that rate is greater than the student rate, the federal government pays lenders an additional amount in that quarter. If that rate is less than the student rate, the government does not make any additional payments. In effect, the student rate is a floor below which a lender's return cannot fall.

This option would eliminate the floor on the interest rate that lenders receive. If the calculated lender rate exceeded the student rate, the government would pay lenders as it does now. But if the calculated lender rate was less than the student rate, lenders would be required to rebate the excess to the government. That change would reduce federal outlays for the FFEL program by $340 million next year and by a total of almost $4.5 billion over the 2004-2008 period.

Supporters of this option would argue that the lender-rate formula is designed to approximate a fair market return to lenders. In that view, lenders now earn an above-market return during quarters when the calculated lender rate is below the student rate. Moreover, compared with other ways of lowering lenders' returns, this approach might be preferable to many lenders because it would closely tie their interest income with their interest expenses.

Some opponents of this change contend that the current lender-rate formula underestimates a fair market return. To compensate for that underestimate, lenders rely on occasionally earning more than the calculated rate, as they do when the student-rate floor is in effect. Moreover, the lender-rate formula has been adjusted downward several times in the past decade. Further reductions might induce some lenders to leave the FFEL program.

RELATED OPTION: 500-04

500-08—Discretionary

End New Federal Funding for Perkins Loans

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	102	104	106	108	111	530	1,120
Outlays	10	99	104	106	108	427	1,006

The federal government provides student loans through various programs, including the Federal Family Education Loan Program, the William D. Ford Federal Direct Loan Program, and the Federal Perkins Loan Program. The Perkins Loan program is the smallest, with allocations made directly to nearly 1,900 postsecondary schools. Financial aid administrators at those schools determine which eligible students receive Perkins loans. During the 2001-2002 academic year, approximately 710,000 students received such loans.

Funding for Perkins loans—which totaled about $1.4 billion in 2002—comes from an institutional revolving fund that has four sources: payments on previous years' student loans, which schools collect ($1.1 billion in 2002); federal payments for loan cancellations, which are granted when students agree to teach in high-need areas or undertake military or public service ($68 million in 2002); federal contributions from new appropriations ($100 million in 2002); and matching contributions from schools, which must equal at least one-third of a school's federal contribution.

This option would eliminate new appropriations for federal contributions to the Perkins Loan program, thus lowering outlays by a total of $427 million during the 2004-2008 period. The extent to which funding for student loans declined would depend on the responses of postsecondary institutions, some of which might make up part or all of the lost federal money. If schools did not make up any of the lost federal funds but continued to contribute to the program at the level of their previous matching contributions, approximately 60,000 fewer Perkins loans would be made annually.

Supporters of this option would argue that enough low-interest loans are available through the Federal Family Education Loan and direct loan programs to render additional federal capital contributions to the Perkins Loan program unnecessary. Furthermore, although the main goal of federal student aid is to eliminate financial barriers to postsecondary education, the Perkins Loan 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 1999 allocation and then on the basis of the financial need of its students. Because campus-based aid such as the Perkins Loan program is tied to specific institutions, students with greater need at poorly funded schools may receive less money than students with less need at well-funded institutions.

Opponents of this option would contend that eliminating new funds for Perkins loans would reduce the total amount of aid available and give schools less discretion in packaging aid to address the special situations of some students. Moreover, nearly half of Perkins loan money goes to students at private nonprofit institutions (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.

RELATED OPTION: 500-09

500-09—Discretionary

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

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	191	195	199	203	208	996	2,104
Outlays	22	186	195	199	204	806	1,893

In several federal student aid programs, the government pays schools to administer the programs or to distribute the funds, or both. One type of program, campus-based aid, includes the Federal Supplemental Educational Opportunity Grant Program, the Federal Perkins Loan Program, and the Federal Work-Study Program. The government distributes funds for those programs to institutions, which in turn award grants, loans, and jobs to qualified students. Under a statutory formula, institutions are allowed to use up to 5 percent of those program funds for administrative costs. In another program, the Federal Pell Grant Program, schools also distribute federal funds but eligibility is determined by federal law rather than by the institutions. The Higher Education Act provides for a federal payment of $5 per Pell grant to reimburse schools for some of their costs in administering that program.

The government could save about $167 million in budget authority next year if schools were not allowed to use federal funds from the campus-based aid programs to pay administrative costs. It could save another $24 million that year if the $5 payment to schools in the Pell Grant program was eliminated. Together, those changes would save a total of $806 million in outlays over the 2004-2008 period.

Arguments can be made both for eliminating those administrative payments and for retaining them. On the one hand, schools benefit significantly from participating in federal student aid programs even without the payments because the aid makes attendance at those schools more affordable. In 2003, students at those institutions will receive an estimated $15.5 billion in funds under the Pell Grant and campus-based aid programs. On the other hand, institutions do incur costs to administer the programs. Furthermore, if the federal government did not pay those expenses, schools might simply pass along the costs to students in the form of higher tuition or lower institutional student aid.

RELATED OPTION: 500-08

500-10—Discretionary

Eliminate the Leveraging Educational Assistance Partnership Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	68	69	71	72	74	355	750
Outlays	14	68	70	71	73	296	684

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 academic institutions or vocational schools. States must match federal funds at least dollar for dollar and also meet maintenance-of-effort criteria (minimum funding levels based on funding in previous years). Unless excluded by state law, all public and private nonprofit postsecondary institutions in a state are eligible to participate in the LEAP program.

This option would eliminate the program, reducing federal outlays by $296 million over five years. The extent to which students' financial assistance declined would depend on the responses of the states, some of which would probably make up at least part of the lost federal funds.

Proponents of eliminating the LEAP program argue that it is no longer needed to encourage states to provide more student aid. When the program was first authorized in 1972, only 28 states had student grant programs; now, all 50 states provide such grants. Moreover, states currently fund the program far in excess of the level to which federal matching funds apply.

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

500-11—Discretionary

Eliminate the Senior Community Service Employment Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	450	459	468	478	489	2,344	4,954
Outlays	76	433	460	470	480	1,919	4,481

The Senior Community Service Employment Program (SCSEP) funds part-time jobs for people age 55 and older who have low income and poor employment prospects. To participate in the program in 2002, a person had to have annual income of less than $11,075—or 125 percent of the federal poverty line for someone living alone. SCSEP grants are awarded to nonprofit organizations, the Forest Service, and state agencies. Those organizations and agencies pay participants to work in part-time community service jobs, up to a maximum of 1,300 hours per year.

In 2002, nearly 100,000 people took part in the SCSEP, working in schools, hospitals, and senior citizen centers and on beautification and conservation projects. Participants are paid the federal or state minimum wage or the local prevailing wage for similar employment, whichever is higher. They are also offered annual physical examinations, training, personal and job-related counseling, and assistance to move into unsubsidized jobs when they complete their projects.

This option would eliminate the SCSEP, saving $76 million in outlays next year and $1.9 billion over the 2004-2008 period (compared with the 2003 appropriations enacted on February 20, 2003, adjusted for inflation).

Advocates of this option maintain that the SCSEP offers few benefits aside from income support and that the work experience gained by participants would generally be more valuable if it was provided to equally disadvantaged young people, who have longer careers over which to benefit from it. 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 usually must bear just 10 percent of such costs. Shifting those costs would ensure that only the services that were most highly valued would be provided.

Opponents of this option note that the SCSEP is the major federal jobs program aimed at low-income older workers. Eliminating it could cause hardship for 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 the SCSEP, community services might be reduced if nonprofit organizations and states were unwilling or unable to increase their spending to offset the loss of federal funds.