CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 16, 2003

H.R. 438
Teacher Recruitment and Retention Act of 2003

As ordered reported by the House Committee on Education and the Workforce on June 10, 2003

SUMMARY

H.R. 438 would make two changes in the current teacher loan forgiveness provisions for federal student loans. The first change would restrict the participation in those loan forgiveness provisions to only those teachers deemed "highly qualified" as defined in the Elementary and Secondary Education Act (ESEA) of 1965. The other change would make certain special education, mathematics, and science teachers eligible for additional and earlier loan forgiveness.

Because the costs of federal student loans are not subject to appropriation, enacting this bill would affect direct spending. CBO estimates that enacting H.R. 438 would cost $60 million in 2003, $25 million in 2004, and $340 million over the 2003-2013 period.

H.R. 438 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 438 is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	By Fiscal Year, in Millions of Dollars										
DIRECT SPENDING											
Student Loan Program Spending Under Baseline Projections [a]											
Estimated Budget Authority	4,839	4,661	5,502	6,184	6,472	6,692	6,887	7,059	7,230	7,398	7,646
Estimated Outlays	4,310	3,879	4,843	5,423	5,789	6,050	6,233	6,396	6,551	6,706	6,941
Proposed Changes											
Estimated Budget Authority	70	25	25	25	25	30	30	30	30	30	30
Estimated Outlays	60	25	25	25	25	30	30	30	30	30	30
Student Loan Program Spending Under H.R. 438											
Estimated Budget Authority	4,909	4,686	5,527	6,209	6,497	6,722	6,917	7,089	7,260	7,428	7,676
Estimated Outlays	4,370	3,904	4,868	5,448	5,814	6,080	6,263	6,426	6,581	6,736	6,971

a. Spending includes liquidating and program accounts for both direct and guaranteed student loans, as well as the federal student loan reserve account.

BASIS OF ESTIMATE

The costs of the student loan programs are included in the budget resolution baseline reflecting the assumption that the authorization for the existing loan programs is extended. (Specifically, section 257 of the Balanced Budget and Emergency Deficit Control Act requires that certain expiring programs be assumed to continue for baseline projection purposes. The authority for certain elements of the guaranteed loan programs is scheduled to expire September 30, 2004; but the baseline assumes that the entire program will be reauthorized.) The provisions affecting the student loan programs are assessed under the requirements of the federal credit reform act. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated and the costs of all changes (i.e., "modifications") affecting outstanding loans are displayed in the fiscal year the bill is enacted—assumed to be 2003 for this estimate.

Under current law, all new student borrowers as of October 1998 who subsequently teach in public or private elementary schools in a school district eligible for funds under title I of the Elementary and Secondary Education Act (Title I) and in a school with more than 30 percent of the students from low-income families are eligible to have the government pay off or cancel part of their outstanding subsidized or unsubsidized student loan debt. To qualify, teachers must teach full time for five consecutive years, and then only if they are determined qualified by the chief administrative authority in the case of elementary school teachers or teaching in an area relevant to their college major in the case of secondary school teachers. If they meet those criteria, 100 percent of their outstanding debt is canceled up to a maximum of $5,000. Under the current budget resolution baseline, CBO estimates that the total federal costs for teacher loan forgiveness is approximately $1.9 billion over the 2003-2013 period. When fully implemented, about 75,000 teachers are expected to apply each year for the $5,000 in loan forgiveness.

New Restriction on Loan Forgiveness Participation

Under H.R. 438, new teachers would have to be deemed "highly qualified" teachers as defined by the ESEA to receive the loan forgiveness described above. For elementary teachers this means that they would have to have to hold a bachelor’s degree and pass a rigorous state examination testing skills and knowledge in teaching reading, writing, mathematics, and other required subjects. Middle school and high school teachers would have to hold a bachelor degree and pass a rigorous state exam for each academic subject they teach. Teachers who were teaching prior to enactment of this bill and eligible for the loan forgiveness under current law would be exempt from the new standards.

Existing federal education statutes already encourage states to move towards a highly qualified teaching force by academic year 2005-2006. As a result, the new restriction will likely affect relatively few teachers. Based on data from the National Center on Education Statistics (NCES), CBO estimates about 3,000 fewer teachers each year—about 4 percent—would be eligible for loan forgiveness as a result of this restriction. CBO estimates that this change would save $20 million in 2003, $10 million in 2004, and $110 million over the 2003-2013 period.

Increase in Loan Forgiveness Amounts

H.R. 438 also would increase the maximum amount of loan cancellation from $5,000 to $17,500 for highly qualified mathematics and science teachers and special education teachers who teach in public or private elementary schools in school districts eligible for assistance under Title I and in schools with more than 40 percent of the students from low-income families. While teachers would still be required to teach full time for five consecutive years, they would begin to receive loan forgiveness earlier. After the second year of teaching, $1,750 or 10 percent of their loan obligation, whichever is less, would be forgiven. After the third, fourth, and fifth years the cancellation levels would be $2,625 or 15 percent, $4,375 or

25 percent, and $8,750 or 50 percent, respectively. Any teacher who fails to complete five consecutive years of full-time teaching would be required to repay the government with interest. The Secretary of Education would have some discretion with regard to the repayment. The Secretary could either waive the repayment in the case of economic hardship or could charge collection fees on the repayments.

CBO estimates this provision would cost approximately $80 million in 2003, $35 million in 2004, and $450 million over the 2003-2013 period.

H.R. 438 would provide additional benefits only to a small portion of those who would be eligible for loan forgiveness under current law. First, based on data from the Department of Education, requiring the share of low-income students to be at least 40 percent rather than 30 percent would reduce the number of schools where teachers could receive this benefit from about 53,000 schools to 31,000—a decrease of 40 percent. Second, based on data compiled from NCES, CBO estimates that mathematics, science, and special education teachers would represent approximately 13 percent of teachers at these schools.

CBO estimates that under H.R. 438 approximately 5,500 mathematics, science, and special education teachers would become eligible each year to begin participating in the four years of loan forgiveness once the program is fully implemented. (Few, if any teachers would be eligible for the expanded benefits in 2004 because of the way the loan forgiveness is phased in.) The average loan forgiveness for these teachers would total roughly $16,000 once they complete the required five years of service. CBO estimates that roughly 550 new participants each year who received some loan forgiveness would drop out of teaching before completing five years, and would be required to repay the government with interest.

For modeling the participation rate for various loan forgiveness alternatives for teachers, CBO used data from the Perkins loan program where loan forgiveness provisions have been in place for 25 years. To the extent that these data reflect the impact of loan forgiveness on teacher turnover rates, CBO has incorporated similar effects for teachers with federal direct or guaranteed student loans. Although different amounts of loan forgiveness may have marginally different effects on teacher retention, any such effects would likely be small relative to the overall budgetary costs.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 438 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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