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Senate Finance Committee Plans October Higher Ed Tax Bill

Senate Finance Committee Chairman Max Baucus (D-Mont.) recently announced that he would introduce a higher education tax package in October. The bill, long in the works, would combine popular tax incentives – like the Hope credit and above-the-line tuition deduction – and replace them with a "super-credit." According to his staff, the proposal would not include the Lifetime Learning credit.

In addition, Baucus proposes to make permanent several popular higher education provisions that are set to expire. These include IRC Sec. 127 (employer-provided education assistance) and the improvements made to the Student Loan Interest Deduction (SLID) in 2001, both currently set to expire at the end of 2010. Finance staff acknowledged they are also considering an extension of the IRA charitable rollover provision that expires at the end of 2007, but were uncertain if it would be included in this bill or in a general tax extenders package.

The higher education tax package is expected to cost \$15-20 billion, and will be offset primarily with items outside of higher education's purview. Earlier this year, committee staff had considered a limitation on tax-free tuition remission benefits under IRC Sec. 117(d). However, after receiving a great deal of negative feedback from our colleges and universities, they decided not to include it as an offset.

Unfortunately, the committee is still considering language on mandatory endowment payouts from colleges and universities with "large" endowments. It's unclear whether they would tie this to tuition increases, and whether the payout would have to be rerouted as tuition assistance. Also unclear is how large "large" is, with the committee looking at endowments of over \$500 million and over \$1 billion.

During a Finance Committee hearing on offshore investments on September 26, two witnesses testified in support of mandatory endowment payouts for colleges and universities – Jane Gravelle, from the Congressional Research Service, and Lynn Munson, former director of the National Endowment for the Humanities and currently a fellow at the Center for College Affordability and Productivity. Both suggested the mandatory payouts as a way to defray rising tuition costs. The higher education community was not invited to participate, but will submit a rebuttal for the record.

Finance Committee staff appear to disagree on whether to include endowment payout language in the higher education tax bill later this month, or consider it through separate legislation at a later date. The House Ways and Means committee currently has no plans to

consider similar tax legislation, and haven't indicated whether they'll take up the Senate bill. So far, House members and staff have only indicated that they're "interested" in the issues under consideration at the Finance Committee.

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This Week's Odds: HEA Gets Done This Fall

The first half of Higher Education Act reauthorization was effectively completed through the budget reconciliation process, so higher ed watchers are now taking bets on whether or not the rest of the bill gets done this fall. Just a few weeks ago, most observers were betting the bill would not be completed, but those views are quickly changing.

In shifting their predictions, higher ed specialists have been watching two lawmakers in particular: Mike Enzi, lead Republican on the Senate education committee, and George Miller, Democratic chair of the parallel committee in the House. Enzi has surprised observers with his persistence in pushing the House to follow the Senate's lead and get a bill done. It is not that other Senate leaders, such as Committee Chair Ted Kennedy, wouldn't also like a bill; it is just that Senator Enzi seems to have a particular passion for the legislation. Enzi's recent practice of carrying a copy of the Senate-passed HEA bill in his arms, has made observers think that his push might overpower Miller's lesser sense of urgency.

And it is not that George Miller is against finishing up HEA this year. He is just more fully absorbed in reauthorizing No Child Left Behind – a bill that has proven just as controversial in its first rewrite as it did when it was originally crafted seven years ago. Beyond that, Miller's main interest in HEA – cutting lender subsidies to provide more funding for student aid – has been completed via the recently enacted higher education reconciliation legislation (see *separate story below*). So, with lots of other urgent legislation on his platter, he is less likely to lose sleep if the final work on HEA is pushed into 2008.

The rumors, though, are that Miller's more relaxed approach is being trumped by Enzi's enthusiasm for the legislation, and the House is now expected to develop a bill during October. That would still give plenty of time for Congress to get a bill passed before they adjourn – especially if the newest rumors that Congress could be in session until Christmas hold true. It's an important development to watch unfold, given that the HEA reauthorization bill will address such controversial topics as transfer of credit, accreditation, and college cost.

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President Signs Student Aid Reconciliation Bill

On September 27, President Bush signed into law the College Cost Reduction Act, also known as the higher education reconciliation bill. Touted as the biggest investment in student aid since the GI bill, P. L. 110-084 cuts roughly \$20 billion from student loan lender subsidies and redistributes those dollars to new benefits for students. (See *the September 13 issue of Week in Review for a detailed analysis.*)

Most notably, the law includes a five-year plan to increase the Pell Grant maximum from \$4,310 to \$5,400 by 2012. It also cuts student loan interest rates in half over five years; makes more students eligible for student aid through changes in need analysis; creates special grants for students going into teaching; and creates a loan auction pilot program.

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NAICU Launches U-CAN

After more than a year in development, the University & College Accountability Network (U-CAN) was unveiled on September 26. U-CAN is the first national consumer information resource created and provided directly to students and parents by colleges and universities themselves. At the time of the launch, over 600 private colleges and universities had signed on to participate, and over 450 had publicly posted their profiles. Since then, another 60 institutions have signed up, and as many as another 200 profiles are expected to be published within the next few weeks.

A telephone news conference featured Leslie Garner Jr., chair of the NAICU board of directors and president of Cornell College; Victor Boschini, chair-elect of the NAICU board and chancellor of Texas Christian University; John Bassett, chair of the board committee that developed U-CAN, and president of Clark University; and NAICU President David Warren. A high school college counselor and high school senior from the Washington, D.C., area also spoke about the benefit of the site to consumers. More than 20 national and regional journalists called in to the news conference. *(A press release and other background information can be found at www.ucan-network.org/mediakit.)*

"We are very excited about the launch of U-CAN," said Warren. "There are many consumer sources out there, but U-CAN offers something distinct.

"The college profiles provide a unique mix of 42 quantitative elements, narrative descriptions, and 25 hyperlinks to campus web sites," he said. "Institutions not only report cut-and-dry statistics, but also have the opportunity to express what makes them special."

In the two months prior to the launch, nearly 70 articles on U-CAN appeared in the media nationally and regionally, including the *New York Times*, *Washington Post*, and *USA Today*. Since last Wednesday's launch, over 20 national and regional papers have covered U-CAN, including *Business Week* and the *Chicago Tribune*. *(For links to U-CAN media coverage, go to www.ucan-network.org/mediacoverage.)*

The effort also is being well received on the Hill. "As a longtime proponent of transparency in higher education, I consider U-CAN a breakthrough," said Rep. Howard "Buck" McKeon (R-Calif.), ranking member of the House Committee on Education and Labor. "Modeled after many of the consumer tools I and other members of Congress proposed in 2004, U-CAN provides a starting point for transparency that can and should be embraced by the higher education community as a whole."

Beyond the launch, a key component of U-CAN is an ongoing grassroots communication program supporting efforts by participating institutions to reach out to local high schools, parents, news media, and community groups. In October and November, NAICU will be coordinating a national radio tour featuring college and university presidents speaking about U-CAN on local talk and news programs. U-CAN is also being marketed through the "new media," including targeted ads on Google and Facebook, and a presence on Wikipedia and social network sites. A direct mailing to high school college counselors and college admissions officers will be sent in early October.

To view the U-CAN site, with links to the individual institutions' profiles, visit www.ucan-network.org.

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FY2008 to Begin Without a Shutdown

In anticipation of the beginning of the federal government's fiscal year on Monday, October 1, Congress passed a seven-week continuing resolution to ensure government agencies continue operating despite their appropriations bills being incomplete.

On September 26 and 27, the House and Senate, respectively, passed H. J. Res. 52, a resolution continuing appropriations for all government agencies until November 16, 2007. Agencies are funded at current levels to avoid a government shutdown. The House passed the resolution by a vote of 404 to 14; the Senate by a vote of 94 to 1.

While the House has passed all 12 appropriations bills, the Senate has only passed four. The education appropriations bill passed the House in July. That bill is expected to be debated on the Senate floor the week of October 15. The Senate bill spends \$2 billion less than the House bill overall. We will keep NAICU presidents up to date as strategies develop for the Senate floor consideration, and the potential veto battle later this fall.

As you know, President Bush has threatened to veto domestic appropriations bills that exceed his budget request. The education funding bill is the highest – at \$10 billion above his request. Congressional leaders floated a strategy last week of bundling the domestic spending bills, which total \$23 billion above the president's request, with the administration's war supplemental funding request of \$200 billion, to shame him into signing them into law.

However, in a quick battle of press comments, Bush called House Appropriations Committee Chairman David Obey's (D-Wis.) bluff, saying "If they think that by waiting until just before they leave for the year to send me a bill that is way over budget and thicker than a phone book, [if] they think that's going to force me to sign it, it's not."

How Congress and the White House negotiate these final moves of the budget end game remains to be seen, but we will keep you posted on appropriate actions to take between now and the weekend before Christmas, which most budget watchers believe will be when this will finally all be decided.

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HEROS Bill Heads to the President

The House on September 25 and the Senate on September 27 passed a permanent extension of the Higher Education Relief Opportunities for Students Act (HEROS). The act, first passed in 2003, expired on September 30. Congressional action this week has put the legislation on track to become permanent. The president is expected to sign the legislation.

HEROS authorizes the Secretary of Education to waive statutory student aid provisions for service members and certain others, including spouses and dependents, during a time of war or other national emergency.

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Private Colleges Continue to Have Lowest Default Rate

Overall, student loan cohort default rates have again decreased. The drop in the overall default rate for 2005, to 4.6 percent, follows two years in which the rates increased slightly, relative to the steady decline from the peak rate of 22.4 percent in 1992.

The 2005 composite rate of 4.6 percent is down from 5.1 percent in 2004. For private 4-year colleges, the 2005 rate is 2.3 percent – down from 2.6 percent in 2003 and 2.8 percent in 2004.

The increases of recent years have been relatively small, and the decrease for 2005 occurred despite the significant increase in the number of borrowers who went into repayment. In the case of 4-year privates, the number of borrowers who entered repayment on new loans rose from 197,176 in 2003 to 347,887 in 2005. Much of this increase may be explained by the number of borrowers who consolidated old loans during this period. Borrowers had to begin repaying their new consolidation loans immediately, but they locked in the extremely low interest with extended repayment periods.

The default rates for the different sectors have remained more or less constant in relationship to one another as well. The four-year privates continue to have the lowest rates, whether overall rates are rising or falling. The proprietary sector continues to have the highest overall rate for 4-year institutions, at 7.2 percent, and their rates for less than 2-year and 2-3 year schools are also higher.

Although the cohort default rates have continued to fall, they don't tell the whole story. Many borrowers default after the "window" in which the cohort default rate on their loans is measured. This is because the point at which a loan defaults has been pushed farther out, confirming – at least for the short term – the effectiveness of repayment strategies to keep borrowers from defaulting.

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