McKeon Pulls Back Most Price Increase Penalties

On March 3, Rep. Howard “Buck” McKeon (R-Calif.) delivered some good news to all of higher education by announcing that he was abandoning his efforts to withdraw a portion of Title IV funds from institutions whose increases in tuition and fees exceed twice the rate of inflation. (See WIR 10/21/03 for a summary of the original proposal, H.R. 3311.)

In a message to the NAICU Board of Directors about McKeon’s announcement, NAICU President David Warren expressed his conviction that “it would not have happened without the steady and intense efforts by you and other NAICU presidents in making clear our staunch opposition to the legislation.”

McKeon’s decision is clearly a cause for celebration, but some caution is in order. The details of his new plan will not be available until he introduces a revised bill. However, he has already indicated that he will retain provisions imposing extensive cost reporting requirements on institutions and requiring cost management plans for those who increase prices more than twice the inflation rate.

Likewise, while suggesting that he will also modify provisions relating to the transfer of credit, McKeon remains strongly committed to amending the act to address this issue. It is not clear how far he is prepared to go in scaling back his original proposals.

Exchanging salvos

In the meantime, the McKeon announcement set off a spate of dueling press releases from other members of the House Committee on Education and the Workforce. Rep. George Miller (D-Calif.), the ranking Democrat on the committee, launched the first volley with a press release titled “After Republicans Abandon Punitive Plan, Democrats Offer Only Proposal for Controlling College Tuition Prices.” Miller contended that the real college cost problem was the reduction in state support for higher education.

Committee Chairman John Boehner (R-Ohio) fired back with a release urging Democrats to punish states that do not maintain support for higher education—which he described as cutting funding for education programs such as the No Child Left Behind Act and the Individuals with Disabilities Education Act.

Miller, joined by Rep. John Tierney (D-Mass.) and Rep. Betty McCollum (D-Minn.), renewed their criticism of the McKeon bill and denied that their proposal would cut funds that directly serve K-12 children. Rather, they contended that “states that cut college funding risk losing administrative funds, not education money that serves children.”

McKeon will introduce his revised proposal, which will also include provisions relating to the Pell Grant and student loan programs, once the cost of the measure is estimated by the Congressional Budget Office. Stay tuned!

For more information, please contact Susan Hattan at NAICU, (202) 785-8866, or susan@naicu.edu.

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Senate Budget Committee Provides Reserve Fund for Student Aid

During its March 3 mark-up, the Senate Budget Committee provided an unprecedented $8.7 billion in special funds for student aid in its FY 2005 budget resolution. However, the House is not likely to duplicate the provision.

The resolution calls for a $5 billion reserve fund for the education committee to use during the reauthorization of the Higher Education Act to increase student loan limits, reduce borrower origination fees, and/or maintain the existing variable rate interest structure after 2006. Keeping this reserve fund in the final budget is critical to increasing loan limits and providing better borrower benefits in the reauthorization this year.

The resolution also provides for $3.7 billion in mandatory budget authority to eliminate the current Pell Grant shortfall, so that the program can continue to be financially viable. Putting the funds on the mandatory side of the ledger allows the Appropriations Committee to take the shortfall off the books (without tempting them to spend the money on other programs), and removes the shortfall as a barrier to increasing the maximum grant.

While the reserve fund is a big victory for student aid, the resolution also proposes two problematic technical provisions. A new scoring rule would make the cost of the Pell Grant program the actual full cost associated with the maximum award. While this is a good budget and accounting move for the program, it would make it very difficult for the Appropriations Committee to increase the Pell Grant maximum without cutting other programs, or getting additional money for the subcommittee. This makes it almost impossible to increase the maximum grant, unless the president proposes it in his initial budget. Eliminating this proposal and keeping the pay-off of the Pell Grant shortfall would provide the best chance of increasing the maximum grant, now and in the future.

The second issue of concern is the proposal to move $795 million for student loan administrative expenses from the entitlement side of the budget to the appropriations side. This account is the infrastructure that supports processing of the Free Application for Federal Student Aid and allows student loan dollars to flow to students.

If this account were moved to appropriations, it would be competing with the limited dollars available for student aid. It could also be seen as a slush fund, rather than an important part of getting aid to students, and could be targeted for cuts. These important funds should stay on the mandatory side of the budget so that they are funded as needed.

Other education funding

The Senate budget resolution provides an increase of $3.1 billion over last year’s level for Function 500, the education, training, and social services category of the budget. According to the committee explanations, all of the increase goes to education programs. The total appropriated level of $81.1 billion for Function 500 assumes a $1 billion increase for Title I of No Child Left Behind; a $1 billion increase for special education; an $800 million increase to fully pay for a $4,050 Pell Grant maximum; and a freeze at last year’s level for all other programs. The good news here is that the Senate does not propose the 38 program eliminations the president’s budget requested.

Big picture

The Senate budget resolution provides $814 billion for total discretionary spending. While this is a 3.3 percent increase over last year, or an additional $26 billion, it is $9 billion less than the president’s request for total discretionary spending.

The $814 billion is the amount the appropriations committee will divide up among the 13 subcommittees. Chairman Ted Stevens (R-Alaska) has already said it will be impossible to pass all 13 bills with such a tight cap on spending.

For defense, the Senate provides $414 billion, which is $45.2 billion (or almost 10 percent) less than last year, when supplemental spending is taken into consideration. However, the resolution provides for a $30 billion contingency fund for military operations in Iraq and Afghanistan, if needed later in the year. For Homeland Security, the Senate resolution proposes a $4 billion increase, to $31 billion; and for everything else, a $2 billion increase, to $369 billion.

For entitlement spending, the Senate mark proposes a net cut of $4.6 billion over five years.

On the revenue side, the resolution provides for $80 billion over five years for reconciliation to extend the child tax credit, marriage penalty relief, and the

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10 percent tax bracket expansion. The resolution also provides for another $23 billion for other tax cuts, which are not to be considered under the special rules of reconciliation.

The Senate resolution projects that the deficit will be reduced by half in three years, rather than the five years projected in the president’s budget. This would be achieved mostly through more spending cuts than the president’s budget.

Next steps

The Senate is scheduled to begin 50 hours of debate on the budget resolution on Monday, March 8, and will vote on final passage before the end of the week.

The House Budget Committee is scheduled to write its version of the budget resolution on March 10. However, Chairman Jim Nussle (R-Iowa) is having trouble getting his colleagues to agree to the tight restraints he would like to put on spending, as Chairman Don Nickles (R-Okla.) did in the Senate. Members of the Armed Services Committee and the Defense Appropriations Subcommittee have been particularly vocal in their opposition to taking funds out of defense, despite the promise of a supplemental spending bill later this year.

If the committee can mark up a resolution, House floor debate would take place the week of March 15, and the House and Senate could go to conference on a final budget plan before the end of March. NAICU will ask its members to call their representatives in Congress to push for retention of the Senate student aid funds. The spring recess is scheduled to take place earlier in April than usual this year, so Congress is working to get this done before then.

For more information, contact Stephanie Giesecke at NAICU, (202) 785-8866, or stephanie@naicu.edu.

IRS Clarifies Student FICA Requirements

On February 24, the Internal Revenue Service issued guidance for colleges and universities on the student exemption from FICA taxes. The guidance clarifies that wages received by an employee of a nonprofit college or university are not subject to FICA taxes if he or she is enrolled and regularly attends classes there. Current law did not clearly define “institutions of higher education,” and provided only limited guidance on determining the status of working students.

A college or university is considered a qualified employer for student FICA purposes if its primary function is to conduct educational activities. The employer must regularly maintain faculty and curriculum, and have an enrolled body of students attending educational classes. It’s not sufficient to perform both educational and non-educational activities; the employer’s primary purpose must be educational.

An employee must meet three criteria to be considered a student:

1. First, the employee must be enrolled in and regularly attend classes than can be credited toward a degree, certificate, or other recognized credential at the institution where he or she is employed.
2. Second, the employee must be pursuing a course of study that fulfills the requirements necessary to receive a degree, certificate, or other recognized credential in a field.
3. Third, the employee’s relationship to the institution must be primarily as a student, and secondarily as an employee.

Additional guidance, including information on career employees and safe harbors, can be found on the IRS Web site at http://www.irs.gov. Click on the “Charities & Non-Profits” link; the details on student FICA guidance are listed first.

For additional information, contact Karin Johns at NAICU (202) 785-8866, or karin@naicu.edu.
Senate Committee Explores Higher Education-Workforce Connections

The Senate Committee on Health, Education, Labor, and Pensions continued its examination of reauthorization themes with a March 4 hearing on “The Higher Education Act and the Workforce: Issues for Reauthorization.” The hearing was chaired by Senator Mike Enzi (R-Wyo.), chairman of the Subcommittee on Employment, Safety, and Training.

Enzi set the stage by citing statistics on a growing gap between the number of jobs that will require some college, and the number of students pursuing the education needed to fill those jobs. He said that the Workforce Investment Act (WIA) and the Higher Education Act (HEA) were “at the heart” of the solution.

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Senator Jim Jeffords (I-Vt.) also focused on the need for skilled workers, expressing his pessimism at the growing skills gap between the United States and the international community. However, Senator Lamar Alexander (R-Tenn.) said he was confident that the autonomy and student choice that typifies higher education creates the flexibility needed for job creation. Noting that job loss was not a new problem, he said it had historically been solved by the creation of new and better jobs—made possible by educating citizens for the changing economy.

The reauthorization themes that came through most clearly at the hearing dealt with better preparation of students in middle and high school, expanded outcomes measures, greater educational assistance for working adults, and the need to collaborate at all levels of government, education, and the business community.

Senator Patty Murray (D-Wash.) said that high schools receive inadequate attention in congressional considerations of education policy. Several of the witnesses mentioned the importance of early intervention efforts. Most of them are employed by organizations that provide skills training or retraining in partnership with businesses and community organizations. They endorsed the principles of broad collaboration and focus on results that underlie the Workforce Investment Act, and suggested that HEA programs become part of this effort.

Witnesses

Charles Bohlen, president of the Laramie County (Wyo.) Community College, testified on behalf of his institution and the American Association of Community Colleges. His college provides an extensive training program for Lowe’s Company Inc. He described community colleges as “a confluence where Federal funds provided through the HEA, WIA, and other programs merge with state and local support to provide education and training to prepare America’s workforce.”

Bohlen said that the current HEA programs and structure were fundamentally sound, and specifically urged that the 90/10 rule and multiple definitions of “institution of higher education” be retained. He would also eliminate the “50 percent rule” for distance education and use the current distance education demonstration program, which provides departmental oversight, as a model for a permanent program.

James Votruba, president of the University of Northern Kentucky, said comprehensive universities such as his focus on “the application of knowledge to address the needs of the geographic regions that they serve.” Noting that substantial federal support has gone to major research-intensive universities, he suggested that a similar effort should be made to support regional workforce development efforts.

Votruba described the four elements of these efforts: enrichment programs for K-12 students, alignment of education programs to high-need jobs, “just-in-time” access to education programs, and provision of faculty and student expertise to local businesses.

Beth Buehlmann, executive director of the Center for Workforce Preparation of the U.S. Chamber of Commerce, argued that traditional concepts of postsecondary education must be broadened to accommodate the needs of adult workers for lifelong learning. Among her recommendations were:

• providing greater assistance to less-than-half-time students,
• repealing the “50 percent rule” to expand the use of distance education,
• allowing industry-recognized certificates or credentials to be counted for college credit,
• developing greater collaboration among institutions of higher education, and
• examining transfer-of-credit problems and the confusion created by multiple definitions of institutions of higher education.

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Buehlmann submitted for the record policy recommendations from the Education, Employment, and Training Committee of the Chamber of Commerce, and from a partnership the Chamber has formed with Corinthian Colleges, DeVry, and Kaplan.

Diana Oblinger, executive director of higher education for Microsoft, described the overarching goals of higher education as a skilled workforce, social mobility, and an engaged and informed citizenry. She discussed the need for adequate high school preparation and the removal of barriers to student success.

Oblinger observed that student success “is not necessarily synonymous with graduation,” as many students seek higher education for specific skills or courses. She added that education is more than job preparation. Even from a business point of view, workers need mental agility, ethics, and the ability to cope with globalization and diversity, Oblinger said.

Ellen O’Brien Saunders, executive director of the Washington State Workforce Training and Education Coordinating Board, discussed the importance of education-training-employer partnerships to successful workforce development, and strong accountability measures to determine program effectiveness. Her primary experience is with the Workforce Investment Act, but she suggested that the HEA be used to strengthen accountability for outcomes and meet needs for certain skills. She defined the employer as the customer for higher education.

The committee will hold its next reauthorization hearing on March 9, to examine proposals related to year-round college.

For more information, contact Susan Hattan or Maureen Budetti at NAICU, (202) 785-8866, or susan@naicu.edu or maureen@naicu.edu.

Grant Opportunity

Teacher Quality Enhancement Partnership Grants

On March 3, 2004, the Department of Education announced grant opportunities in the Teacher Quality Enhancement program (Title II, HEA) for partnerships grants that might be of interest to independent colleges working with the schools, educational organizations and businesses in their local area.

Program background

Teacher Quality Enhancement grants are available to partnerships of institutions of higher education in conjunction with school districts, nonprofit educational organizations, and others to promote improvements in the quality of new teachers, with the ultimate goal of increasing student achievement.

In this round of applications, grants are awarded on a competitive basis, with priority given to applications that include a significant role for private business in the design and implementation of the teacher education project.

Additional information on grant announcements can be found online at http://www.ed.gov/legislation/FedRegister.

For more information, please contact Stephanie Giesecke at NAICU, (202) 785-8866 or stephanie@naicu.edu.

Basic Grant Information

| Applications Available: | March 3, 2004 |
| Deadline for Transmittal of Applications: | April 2, 2004 |
| Deadline for Intergovernmental Review: | August 12, 2004 |
| Estimated Available Funds: | $28,800,000 |
| Estimated Range of Awards: | $500,000 - $2,000,000 |
| Estimated Average Award: | $1,100,000 per year |
| Estimated Number of Awards: | 25 |
| Project Period: | Up to 60 months |

Contact Information:
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Grassley Steps Up Scrutiny of Financial Abuses at Nonprofits


Bob Edwards, the host of "Morning Edition," opened the interview by citing a recent Chronicle of Philanthropy article about dozens of charities and other nonprofits that gave interest-free loans to top executives. Edwards also mentioned news reports alleging that university and foundation presidents used tax-free dollars for luxury apartments and cars.

Grassley did not specifically mention colleges and universities during the interview. He said he supports tax incentives to encourage charitable giving, while making sure that the donations are spent for charitable purposes. At the interview's end, Grassley said that Congress could easily write legislation addressing these issues, but he's more interested in seeing "a voluntary willingness of transparency on the part of CEOs of foundations and charitable organizations."

The NAICU Tax Policy and Accountability Committees have been discussing possible solutions to legislating financial accountability among nonprofits, and what would be best practices for colleges and universities. We look forward to working with Grassley and the Senate Finance Committee on these matters.

For additional information, contact Karin Johns at NAICU at (202) 785-8866, or karin@naicu.edu.

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CASE Seeks Nominees for Professor of the Year

The deadline for nominations for the U.S. Professors of the Year awards, sponsored by the Council for Advancement and Support of Education and the Carnegie Foundation for the Advancement of Teaching, is April 23, 2004. The awards highlight excellent undergraduate teaching and mentoring across the country.

Four national winners are named, one for each of the Carnegie institutional classifications. They receive a $5,000 prize provided by Carnegie, as well as an invitation to speak at an awards ceremony in Washington, D.C. (CASE pays the expenses for the national winners and one guest apiece to attend the ceremony, to be held in November.)

State winners are also named, and are invited to the awards ceremony and other honorary celebrations in Washington. Professors may be nominated via mail or online.

Information about the program and the nomination process is available at http://www.case.org. In the sidebar at the left of the page, click on "Awards & Scholarships," then "Professors of the Year."

For more information, contact Program Coordinator Cheryl Wesley at CASE, wesley@case.org or (202) 478-5646.