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President’s Budget Proposes Market-Based Interest Rates on Student Loans

President Obama sent his FY 2014 budget request to Congress on April 10. While the budget offers olive branches to Republicans with respect to entitlement reform, including both Social Security and Medicare, his proposals for student aid are among those areas sparking a heated debate. Front and center is the administration's proposal to switch to a market-based interest rate - with no cap on how high that rate could be - for all student loans. As a counterbalance, the plan would also offer an expanded and more generous income-based repayment option for student borrowers, although there would be no such relief for parents who borrow with high-rate loans. The President also repeated his call for a cap on tax deductions, including those for charitable contributions.

Interest Rates

The impetus for proposing changes to the student loan program is the interest rate increase - from 3.4 percent to 6.8 percent, scheduled to go into effect for subsidized student loans on July 1. The student loan interest rate has been a political hot potato since Rep. Nancy Pelosi (D-Calif.) included a plan to cut it by half, from 6.8 percent to 3.4 percent, in her "Six for '06” campaign that helped Democrats gain control of the House in 2006. Last year, the issue again drew attention in the presidential race, when Mitt Romney (R-Mass.) supported a $5 billion, one-year fix to keep interest rates at 3.4 percent, preventing those loan rates from becoming a presidential campaign issue. Students remain opposed to the increase to 6.8 percent, but seem to be hinting some support for the market-based rate since, in the short term, current low interest rates would make loans cheaper for all borrowers.

Currently, student loan interest rates are set by statute rather than determined by market conditions; that's why those rates have been as high as 6.8 percent during a time when market rates are far lower. The President’s plan provides that the interest rates on new student loans each year be set according to a market-based formula. The formula would be pegged to the 10-year Treasury bill rate, with a percentage add-on based upon the type of loan: an additional 0.93 percent for subsidized Stafford loans, 2.93 percent for unsubsidized loans, and 3.93 percent for PLUS loans. That market-based rate would be set when the loan is initiated and it would remain fixed for the life of the loan. However, a controversial element of this plan is that it would not set a cap on how high the market-based rate could go. Additionally, the proposal would eliminate the current 8.25 percent cap on consolidation loans. Not capping rates is a major change to a program that has always had rate caps on federal student loans in the past.

As a trade-off to eliminating caps on interest rates, the administration also proposes extending "Pay as You Earn," one of three Department of Education income-based repayment (IBR) programs, to all student borrowers. "Pay as You Earn" caps monthly repayment at 10 percent of discretionary income, and forgives the remaining loan after 20 years of repayment, thus lessening the impact of high interest rates.

The federal government currently shows a net $35 billion return on student loans. A small portion of that
amount goes toward the mandatory add-on to the Pell Grant maximum, but the rest goes toward deficit reduction. It is predicted that loans under the President’s proposed interest rate plan would generate $4.76 billion less than the current program, but still show a $26.3 billion “profit” for the government.

When the President’s proposal is considered on Capitol Hill, the House and Senate education and budget committees will have plenty of input into how to address the July 1 interest rate hike. Additionally, the Congressional Budget Office will probably have differing cost and savings assumptions that have to be balanced before any legislation can be enacted.

Higher Ed Reform

There are no surprises in the FY 2014 budget request for other student aid programs, since most of the proposals are similar to last year’s. (See earlier Washington Update story.) The budget requests the scheduled increase in the Pell Grant maximum to $5,785 for the 2014-15 award year, and assumes level funding for Supplemental Educational Opportunity Grants (SEOG), TRIO, GEAR UP, graduate education, and Strengthening Institutions (Title III) programs. Federal Work Study is increased by $150 million, and Perkins Loans are slated for an $8.5 billion expansion through a redesign as a supplemental, unsubsidized direct loan.

As it did last year, the administration proposes to redistribute campus-based aid based upon institutions’ success in keeping prices low, enrolling and graduating high numbers of Pell-eligible students, and providing good value. A similar plan to reform the Perkins Loan program was unsuccessfully floated four years ago. However, despite opposition to any expansion of the Perkins Loan program, and the fact such a broad redistribution reform previously has not been proposed in this Congress, the President’s proposal could get more attention this year as conversations on reauthorization of the Higher Education Act get underway.

Other higher education proposals include 1) a $1 billion Race to the Top fund for competitive state grants “to drive higher education reform and contain tuition” (targeted at public colleges), 2) $260 million for First In the World competitive grants for “cutting edge innovations that decrease college costs and boost graduation rates” (targeted at private colleges), and 3) an $8 billion Community College to Career fund for state, community college, and employer partnerships. The budget also proposes to eliminate TEACH Grants, and replace them with grants for Presidential Teaching Fellows.

Charitable Deduction Limitation

A plan to limit the value of the charitable deduction shows up in the President’s budget again this year. The proposal would limit the tax benefit of deductions, including the charitable deduction, to 28 percent for single taxpayers earning more than $200,000 and for married/joint filers earning more than $250,000 annually. Each annual budget plan since 2009 has included this proposal, but it has never been acted on by either the House or the Senate.

While the White House estimates that the deduction limit would raise $321 billion in revenue over the next ten years, the nonprofit community decries the billions of dollars in lost donations it would create. The House Ways and Means Committee, which is looking at all current tax benefits for possible reform or restructure, held a hearing in February specifically to discuss charitable tax benefits. The hearing gave the charitable community, including college and university representatives, an opportunity to advocate for maintaining the charitable deduction without caps or dollar limitations.

For more information, contact Karin Johns, Karen@naicu.edu (tax) Maureen Budetti, Maureen@naicu.edu (student aid) Stephanie Giesecke, Stephanie@naicu.edu (overall budget questions)

Postsecondary Distance Education Final Report Released With Recommended Terms for Reciprocity Agreements

The Commission on the Regulation of Postsecondary Distance Education released its final report on April 11, bolstering efforts to develop interstate reciprocity agreements that would simplify the approval process for institutions offering distance education programs. Currently, such institutions face a confusing and expensive array of differing state requirements and fees. The commission recommended reciprocity agreement terms that would provide greater clarity and uniformity.
The commission was formed in May 2012 by the Association of Public and Land-Grant Universities (APLU) and the State Higher Education Executive Officers (SHEEO). Headed by former Education Secretary Richard Riley, it included 20 members from academia, accreditation agencies, and state government. Arthur Kirk, president of Saint Leo University in Florida, served as NAICU’s representative on the commission.

A History of Complications

The commission’s work builds on two previous efforts to disentangle the complicated legal situation facing distance education providers. In 2012, the Presidents’ Forum and the Council of State Governments developed a draft State Authorization Reciprocity Agreement (SARA) that envisioned a national agreement governed by a national SARA policy board. However, because of concerns that the governance structure proposed by SARA might be unwieldy, the regional education compacts - led by the Western Interstate Commission for Higher Education (WICHE) – later developed their own proposals under which the reciprocity agreements would be largely administered at the regional level with some national coordination.

The efforts to develop interstate reciprocity agreements arose from the massive confusion set off by Department of Education regulations dealing with state authorization requirements. In 2011, the distance education provisions of those regulations were struck down in court on procedural grounds and are no longer in force. However, their issuance increased awareness of both the varied and sometimes inconsistent ways in which states regulate distance education, and the often lax enforcement of those requirements. Up to that point, many institutions had given little attention to state requirements related to their distance education offerings, and few states were actively enforcing their own requirements.

Commission Recommendations for Agreement Terms

In its final report, the commission recommended terms for reciprocity agreements. Under those terms, a state choosing to join a reciprocity agreement would assume responsibility for approving the institutions which are domiciled within that state. The approved institutions then could offer distance education in all other states that are parties to the agreement without being subject to further requirements unless the institution has a physical presence in another state or states. A key component of the commission’s recommendations is that “physical presence” be defined as ongoing occupation of a physical location for instruction or administration in a state. Currently, individual states include a wide variety and scope of activities within their definitions of “physical presence,” making compliance with applicable state laws difficult and confusing.

Conceptually, if all states participated in such a proposed reciprocity agreement, an institution would need approval only by its “home” state. If an institution has a physical presence in more than one state, those other states may regulate the instate activity of that institution. Institutions only offering purely online services would be subject to the regulations of just one state.

In general, the commission’s final report marks a positive step toward addressing a regulatory situation that has proven burdensome and confusing for institutions wishing to provide distance education services. However, issues do remain. One concern that NAICU expressed about the commission’s report was that its recommendations relied on the Department’s flawed financial responsibility composite scores as a means for determining whether or not an institution is eligible to participate in a reciprocity agreement. (See the November 2012 final report of the NAICU Financial Responsibility Task Force detailing NAICU’s concerns about the scores.) Art Kirk’s work on that issue did help lead the commission to modify the impact of a one-time score below 1.5 on institutional eligibility in its final report. However, the final report continues to rely on the failed Department standard, leaving a continuing concern for private, non-profit institutions, as expressed by Kirk in the final report.

The next step toward implementation of reciprocity agreements is an invitation-only gathering in Indianapolis sponsored by the Presidents’ Forum. The April 16-17, 2013 meeting will address the commission’s recommendations, and be aimed largely at the state officials who would be involved in putting the reciprocity agreements into effect.

Art Kirk footnote:

While I support the Commission’s efforts to arrive at a workable interstate reciprocity agreement related to state authority over distance education programs and find merit in the majority of the report, I must register
my strong dissent to the final recommendations dealing with Institutional Financial Responsibility. The proposal does not offer even-handed treatment of all institutions—due to its dependence on a portion of the financial responsibility standards for private, non-profit institutions that memorializes in these agreements a partial and deeply flawed metric that needs to be either revised or abandoned and does not apply to public institutions of higher education.

For more information, contact Susan Hattan, Susan@naicu.edu

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**Education Tax Benefits Examined at House Ways and Means Roundtable; Belmont University Among Participants**

The higher education tax benefits were discussed at a House Ways and Means Committee working group roundtable held April 9. The House committee, as part of its examination of tax reform options, has designated 11 working groups to study a wide variety of current tax benefits and their possible simplification, consolidation, or other modification. The Education and Family Benefits working group, chaired by Rep. Diane Black (R-Tenn.), with Rep. Danny Davis (D-Ill.) serving as the ranking minority member, is the group tasked to examine higher education benefits.

A few weeks prior to the roundtable, staff from the offices of Reps. Black and Davis invited representatives from the higher education community, including NAICU, to discuss current tax benefits, ideas for simplification, and any concerns or suggestions for reform. That meeting led to a handful of college presidents and campus representatives being invited to address those issues at the April roundtable.

Jason Rogers, vice president for administration and university counsel at Belmont University in Tennessee, was invited to speak at the roundtable by Rep. Black. Rogers addressed the current array of higher education tax benefits and how they assist Belmont students at every stage of their education. He advocated for maintaining the three-tiered system of benefits that assist families who are saving for college, paying for college, and repaying student loans. Rogers also suggested that the variety of deductions and credits currently in place to help with tuition payments could be consolidated and simplified if the most generous benefit, the American Opportunity Tax Credit, were enhanced and made permanent. A permanent AOTC expanded to offer benefits beyond the first four years of college attendance would negate the need for the Hope and Lifetime Learning credits, as well as the tuition deduction, Rogers maintained.

Other speakers at the roundtable included representatives from Cornell University, Tennessee State University, the community college community, the American Council on Education, and a college savings plan administrator.

After the roundtable session, the working group also met with representatives of Washington-based think tanks and advocates of additional Section 529 college savings plans to get their perspectives on the tax benefits.

The working group will likely make recommendations to the full committee based on its meetings. It is unclear whether there will be additional activity – further roundtables or hearings – or whether legislation will result from the discussions.

For more information, contact Karin Johns, Karin@naicu.edu

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**An About-Face on Using Value-Added Scores for Evaluating Teachers?**

Within days of each other, both Bill Gates and Jay Mathews, a highly regarded national education writer, announced through The Washington Post their new positions on how best to evaluate teacher performance. Both Mathews and the Gates Foundation previously were vocal supporters of utilizing testing and value-added scores for assessing teachers, but now Mathews and the Foundation’s principle funder are backing away from relying solely on such measures. Do those shifts, in conjunction with the backlash against high stakes standardized testing in states across the country, signal a new direction for teacher performance evaluations?
Impact on Assessing Teacher Prep Programs?

Research from leading schools of education shows that value-added assessments are not valid and reliable measures for evaluating teacher preparation programs.

NAICU has long been a supporter of using multiple measures for teacher performance evaluations as they relate to appraising the quality of teacher preparation programs, of weighing the many attributes that contribute to a successful teacher rather than relying only on student standardized test scores. Specifically, NAICU supports the following for reform of teacher preparation programs: that accountability be based on valid and reliable research, evaluations be based on multiple measures, data be used for improvement rather than punitive purposes, and teacher performance evaluations remain a state responsibility.

We hear that the anticipated teacher preparation regulations from the Department of Education are still waiting their turn for OMB approval. Will the recent change of heart from Gates, the principal funder of the country’s most influential education foundation, cause the Department to rethink its direction, or will the administration march forward with proscriptive, value-added regulations?

Whatever the administration decides to do, the fact Gates and Mathews are rethinking their positions is certain to help the cause for a more nuanced approach to evaluating both teachers and teacher preparation programs.

For more information, contact Stephanie Giesecke, Stephanie@naicu.edu

NAICU Washington Update (formerly Week in Review) is published by the National Association of Independent Colleges and Universities.

Eileen Wilson-Oyelaran, President, Kalamazoo College; Chair, NAICU Board of Directors
David L. Warren, President
Sarah Flanagan, Vice President for Government Relations and Policy Development
Roland H. King, Vice President for Public Affairs and Acting Editor

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