Excerpts from Senate Report 112-176 to accompany S. 3295, a bill making appropriations for FY 2013 for the departments of Labor, Health and Human Services, Education and related agencies

STUDENT FINANCIAL ASSISTANCE
Appropriations, 2012 $24,535,281,000
Budget estimate, 2013 24,685,281,000
Committee recommendation 24,535,281,000

The Committee recommends an appropriation of $24,535,281,000 for programs under the student financial assistance account.

Federal Pell Grant Program

The Committee recommends $22,824,000,000 in discretionary funding, the same amount as the fiscal year 2012 level and the budget request, for the Pell grant program. This amount will support an increase in the maximum Pell grant award from $5,550 to $5,635--the first increase in the maximum award since fiscal year 2010.

Pell Grants provide need-based financial assistance that helps undergraduate students and their families defray a portion of the costs of postsecondary education and vocational training. Awards are determined according to a statutory need-analysis formula that takes into account a student's family income and assets, household size, and the number of family members, excluding parents, attending postsecondary institutions.

More than 9.6 million students are expected to receive a Pell grant during the 2012-2013 academic year. Of the 9.3 million students who relied on Pell Grants during the 2010-2011 award year, 74 percent had incomes or came from families with incomes less than or equal to $30,000.

The Pell grant program is funded partly through the discretionary appropriations process and partly through mandatory funding. The HCERA included additional mandatory money for the program to increase the maximum grant by the Consumer Price Index beginning in academic year 2013-2014 as long as the discretionary portion of the funding is sufficient to support $4,860 of the maximum award. The Committee recommendation for fiscal year 2013 meets that requirement, so it will trigger enough mandatory funding to add $775 ($85 more than in fiscal year 2012) to the maximum award on top of the discretionary portion, for a total maximum award of $5,635.

In fiscal year 2012, Congress made several programmatic changes to the Pell grant program to close the $1,362,000,000 funding gap between the estimated cost of maintaining the maximum award and the discretionary funding level provided the previous year. These changes reduced program costs in fiscal year 2012 and into the future, and helped improve the fiscal sustainability of the Pell grant program.

Together with mandatory funding from the HCERA and BCA, plus discretionary funding in the fiscal year 2012 Consolidated Appropriations Act, as well as $2,087,000,000 in cumulative surplus budget authority from previous fiscal years, the fiscal year 2013 funding level will provide an estimated $1,839,000,000 more than is needed to support the discretionary base award of $4,860 and trigger the mandatory increase in the maximum award. This surplus will carry over into fiscal year 2014.

While the Committee's recommendation ensures there will be no funding gap in fiscal year 2013, the Committee is extremely concerned about the funding cliff expected in fiscal year 2014. If the discretionary funding for Pell grants were level funded again in fiscal year 2014, it is estimated that an additional $6,003,000,000 would be needed to continue supporting the discretionary portion of the maximum award at $4,860.

Ignoring this looming crisis would be irresponsible. Therefore, the Committee recommends three reforms to the student financial aid programs that will provide offsets that will not only put a down payment on the Pell grant program's funding needs but also incentivize students to complete their education, eliminate excessive payments to guaranty agencies, and reduce fraud related to distance education programs. Together, these changes will produce $3,517,000,000 in savings in fiscal years 2013 and 2014, all of which will be put back into the Pell grant program to further reduce the funding cliff in fiscal year 2014. The remaining savings from these provisions will be applied in later years.

First, the Committee recommendation includes bill language that limits the duration of a student borrower's in-school interest subsidy to 150 percent of the normal time required to complete the educational program. For example, an undergraduate student enrolled in a 4-year bachelor's degree program will be eligible to receive the in-school interest subsidy for up to 6 years. Currently, subsidized Stafford student loan borrowers receive the in-school interest subsidy the entire time they remain enrolled. The proposal to limit the subsidy duration will encourage borrowers to complete their educational program in a timelier manner. The Committee recommendation will impact new borrowers only. The administration included a similar proposal in the budget request that would have applied to current borrowers as well.

The second reform recommended by the Committee, and requested by the administration, will reduce the amount of loan rehabilitation funds that may be retained by guaranty agencies.

A student borrower who has defaulted on his or her loan has the opportunity to rehabilitate it by making a series of nine payments over a 10-month period. The guaranty agency then sells the loan to an eligible lender, triggering the removal of the default status. Guaranty agencies are compensated in two ways through the rehabilitation process. First, they receive 18.5 percent of the original defaulted amount, plus an additional 18.5 percent collection fee that is charged to the borrower. This means the guaranty agency retains 37 percent of each loan rehabilitated.

The Committee recommendation includes bill language that eliminates the guaranty agencies' retention of 18.5 percent of the original balance and requires the guaranty agencies to remit the original balance to the Department, as opposed to selling the remaining 81.5 percent of the original balance to an eligible lender. In addition, the fee charged to borrowers will be capped at 16 percent as opposed to 18.5 percent. The Department estimates this policy will reduce borrower fees by $58,000,000 in fiscal year 2013.

The Committee notes that many guaranty agencies are affiliated with not-for-profit servicers that will benefit from new loan servicing contracts awarded under the HCERA. These new contracts will reduce or even eliminate the financial impact of the proposed reform to the guaranty agencies.

Third, the Committee recommendation includes a reform to limit Pell Grants to cover only tuition, fees, books, and supplies, and not room and board, for students enrolled in programs provided exclusively by distance education. The Committee notes that, with recent statutory changes that removed the restrictions on the eligibility of distance education programs for student financial aid, there has been a significant increase in the number of education programs offered solely online and in the number of students receiving Pell Grants to enroll in such programs. In September 2011, the Department's Inspector General [IG] issued an Investigative Program Advisory Report alerting the Department about the growth of fraud in distance education programs. Specifically, the report noted that since 2005, 215 participants in 42 fraud rings have been convicted and ordered to pay $7,500,000 in restitution and fines and that 17 percent of the agency's open cases are related to distance education fraud. The IG also expressed concern that the cost of attendance [COA] for distance education students includes an allowance for room and board, which is in contrast to the requirement for students enrolled in correspondence courses. The COA for those students excludes room and board.

Therefore, the Committee includes new bill language that will limit the COA calculation for purposes of determining Pell grant award amounts. Only the costs of tuition, fees, books, and supplies will be included in the COA used to determine the Pell grant award amount for an individual enrolled in an education program delivered exclusively online. Students enrolled in programs that are taught in an on-campus location, or taught using a mix of both on-campus instruction and instruction through distance education, will be unaffected by this reform.

Protecting Financial Aid for Students and Taxpayers

The Committee is disturbed by recent findings that some colleges and universities are using Federal student financial assistance funding for aggressive marketing, recruitment, and advertising rather than for the programs' intended purpose--to help low- and middle-income students pursue an academic degree.

At a time when Federal resources are scarce and students and families across the Nation are struggling to afford a college education, this practice should not be tolerated.

To that end, the Committee includes bill language that prohibits all colleges and universities receiving funding through the HEA from spending Federal educational program dollars on advertising, marketing, and recruitment. Colleges and universities will continue to be free to spend however much they want on these activities; this provision simply stipulates that they cannot use Federal tax dollars that are intended for student aid and educational programs to do so. This reform will target Federal resources at educating students, as opposed to online advertisements and aggressive recruiters, and help ensure that taxpayers are getting a good return on their investment.

Federal Supplemental Educational Opportunity Grant Program

The Committee recommends $734,599,000 for the SEOG program. This amount is the same as the fiscal year 2012 level and the budget request.

The SEOG program provides funds to postsecondary institutions for need-based grants to undergraduate students. Institutions must contribute at least 25 percent toward SEOG awards. Students qualify for grants of up to $4,000 by demonstrating financial need. School financial aid officers have flexibility to determine student awards, though they must give priority to Pell grant recipients with exceptional need.

The budget request recommends reforming the SEOG allocation formula and redirecting SEOG funding from higher-priced and well-endowed institutions to lower-priced public and private institutions that enroll and graduate higher numbers of Pell-eligible students and restrain tuition increases. The budget request does not include any specific recommendations or bill language on how to accomplish these goals. The Committee supports the proposals in principle but believes they deserve more deliberation in Congress.

Federal Work-Study Program

The Committee bill provides $976,682,000 for the FWS program. This is the same amount as the comparable fiscal year 2012 level. The budget request includes $1,126,682,000 and directs the $150,000,000 in new funds to institutions opting to participate in an enhanced work-study partnership with prospective employers.

The budget request also recommends reforming the FWS allocation formula to target and incentivize funding toward institutions that enroll and graduate relatively high numbers of Pell-eligible students as well as offer lower, net tuition prices and fees and/or contain growth in tuition and fees. The budget request does not include bill language on this proposal and no hearings on the topic have been held in the Senate or House. The Committee supports the administration's goals, but believes the proposal deserves more deliberation in Congress.

This program provides grants to about 3,400 institutions to help an estimated 700,000 undergraduate, graduate, and professional students meet the costs of postsecondary education through part-time employment. Work-study jobs must pay at least the Federal minimum wage and institutions must provide at least 25 percent of student earnings. Institutions also must use at least 7 percent of their grants for community service jobs.

The Committee recognizes that community service opportunities allow students to gain work experience and develop skills that they may be able to use in future careers and encourages the Department to bolster these opportunities at participating FWS institutions.

The Committee expects the Department to provide the same funding from the FWS program appropriation in fiscal year 2013 as in the prior year for the Work Colleges program authorized under section 448 of the HEA.

Federal Perkins Loans

The Federal Perkins loan program supports student loan revolving funds built up with capital contributions to nearly 1,700 participating institutions. Institutions use these revolving funds, which also include Federal capital contributions [FCCs], institutional contributions equal to one-third of the FCCs, and student repayments, to provide low-interest, subsidized loans that help financially needy students pay the costs of postsecondary education.

The Committee recommends no new funds for the Perkins Loans program, as was the case in fiscal year 2012. The budget request proposes to restructure the Perkins Loan program as a mandatory credit program--and to expand institutional participation by up to an additional 2,700 postsecondary education institutions. The Committee bill does not include this proposal.

Fund for the Improvement of Postsecondary Education

The Committee recommends $43,494,000 for FIPSE. The comparable fiscal year 2012 funding level is $3,494,000 and the budget request for this program is $70,000,000.

The Committee includes $39,000,000 to create the First in the World initiative, which will be modeled after the Investing in Innovation program. The budget request includes $55,500,000 for this new program. The initiative will help ensure institutions of higher education have access to and implement innovative strategies and practices that have been shown to be effective in improving educational outcomes and making college more affordable for students and families. The Committee recommends that up to $14,000,000 be set aside for minority-serving institutions to improve their students' persistence and completion rates while keeping costs under control. The Committee is particularly interested in supporting programs that target innovative strategies at low-income students.

Analysis of Federal Regulations and Reporting Requirements on Institutions of Higher Education

The Committee directs $1,000,000 for the Secretary to enter into an agreement with the National Research Council of the National Academy of Sciences to conduct a study on the impacts of Federal regulations and reporting requirements on institutions of higher education as authorized under section 1106 of the Higher Education Opportunity Act of 2008. The study shall include information describing, by agency, the number of Federal regulations and reporting requirements affecting institutions of higher education, the estimated time required and costs to institutions of higher education (disaggregated by types of institutions) to comply with the regulations and reporting requirements affecting institutions of higher education, and recommendations for consolidating, streamlining, and eliminating redundant and burdensome Federal regulations and reporting requirements affecting institutions of higher education. The study shall be submitted to the Senate and House Committees on Appropriations, as well as the Committee on HELP and the Committee on Education and the Workforce not later than 1 year after the date of enactment of this act.

Race to the Top: College Affordability and Completion

The budget request includes $1,000,000,000 to create the proposed Race to the Top: College Affordability and Completion initiative, which would provide competitive grants to States with strong records of, and commitments to, increasing college affordability, quality, and value. The Committee recognizes the importance of addressing rapidly increasing college costs and encouraging State-level reform of higher education policies, but it does not include funding for this program because of budget constraints. The Committee also notes that the Senate and House authorizing committees have held no hearings on this proposed initiative.

The Committee notes that the concerns the administration has raised about rising college costs are very serious ones, and agrees that action is needed to reduce burdens on families and improve outcomes for students. The Committee bill funds the First in the World competition requested in the President's budget as a first step toward tackling the challenges of college affordability and completion at the State and institution level. While the administration's request for a new Race to the Top cannot be accommodated in this year's bill, the Committee believes it is important for States to adopt reforms to higher education policies and practices that will reduce college costs for students. The Committee will continue to support these efforts and consider the Race to the Top proposal in the future, after additional deliberation in Congress.