

Education Dept. Hit Hard in Budget

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which are both TRIO programs for disadvantaged students.

- Gear Up, which mainly helps middle-school students prepare for college.

- The Robert C. Byrd Honors Scholarship Program, which provides merit-based scholarships and was originated by and named for one of the president's harshest Congressional critics, Sen. Robert C. Byrd, a West Virginia Democrat.

Although some of the savings would be funneled into bigger Pell Grants for needy students, that provision did little to placate college leaders.

"This really is an effort to take money from the left pocket and put it in the right," said David L. Warren, president of the National Association of Independent Colleges and Universities. "I think our task ahead is to say, 'Mr.

President, thank you for recognizing the centrality of the Pell Grant. It cannot be at the expense of these other programs.'"

Among research programs, the president slashed funds for basic research within the Agriculture, Defense, and Energy

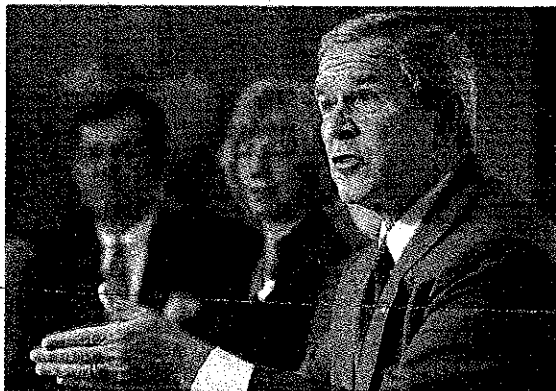
Departments and at the National Aeronautics and Space Administration. Those cuts came despite calls by scientists, including members of Mr. Bush's own science-advisory committee, to pump up federal support for the physical sciences, which has been flat or declining in recent years.

If Congress goes along with the president's blueprint, it would mark the first serious effort to trim the growth of the federal government since Republicans gained control of Congress in 1995. But given that Mr. Bush's proposals for higher education touch some politically popular programs, they are likely to face stiff opposition on Capitol Hill, even with Republicans in charge of both chambers of Congress.

"Every single one of these programs has a fan on Capitol Hill," said a Republican aide on the Senate Budget Committee, who noted that every president since

Ronald Reagan has tried to eliminate the LEAP program without success. "Congress will have a lot to say about these programs before anything is finalized."

Silla Brush contributed to this article.



President Bush's proposed budget cuts that affect higher education eliminate some politically popular programs, so they could face stiff opposition on Capitol Hill.

Bush Proposes Increase for Pell Grants

But the president's spending plan cuts loan program and services for needy students

BY STEPHEN BURD

WASHINGTON

THE BUDGET REQUEST for the 2006 fiscal year that President Bush unveiled last week had both good and bad news for low-income students.

The president called on Congress to raise the maximum Pell Grant by \$500, to \$4,550, over the next five years, and to eliminate a \$4.3-billion shortfall that has plagued the program. He also asked lawmakers to raise the amount that students in their first two years of college can borrow from the government's direct- and guaranteed-student-loan programs.

While college lobbyists applauded the president's plans to increase the maximum Pell Grant, wipe out the program's deficit, and increase loan limits, they were disturbed that the proposal would pay for those changes, in part, by eliminating the Perkins Loan Program and requiring colleges to return the federal share of the money they use to make new Perkins Loans to students from low- and middle-income families.

College lobbyists and student advocates were also unhappy that the president's proposed budget would end several popular pro-

grams that help motivate and prepare low-income students for college. Under the plan, the savings from terminating the programs would be transferred into a block grant that states could use in a variety of ways "to increase the achievement of high-school students," according to budget documents.

Colleges made \$1.263-billion in Perkins Loans, averaging \$1,875, to 673,000 borrowers in 2004.

The loans are made from a pool made up of federal "capital contributions," institutional matches, and repaid Perkins Loans. The recall of the federal share, which amounts to \$6-billion, would be phased in over 10 years.

Bush-administration officials said they had taken aim at the Perkins Loan Program—which gives colleges money to lend to needy students at a fixed interest rate of 5 percent—because of its limited reach. They noted that the number of institutions that provided Perkins Loans to their students had declined from 3,338 in the 1983-84 academic year to 1,796 in 2003-4.

"With only 3 percent of students enrolled in postsecondary education receiving

Perkins Loans each year," documents accompanying the president's budget plan state, "the administration believes the federal share of funds held by this small group of institutions would better serve students if invested in Pell Grants, which serve all eligible students regardless of institution."

"We had to determine what is the best use of taxpayers' money," Susan Aspey, a spokeswoman for the U.S. Education Department said in an interview following a news briefing by the agency on the president's education proposals.

OPPOSITION BUILDING

But college lobbyists said they would oppose the termination of the Perkins program. "Eliminating one critical student-aid program to finance another is not good policy," said Cynthia A. Littlefield, director of federal relations for the Association of Jesuit Colleges and Universities.

The president's budget would also eliminate the Leveraging Educational Assistance Partnerships program, which provides states with federal matching dollars to in-

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duce them to provide need-based aid to low-income students. In addition, it would leave both Federal Work-Study and Supplemental Educational Opportunity Grants, which augment Pell Grants for needy students, at their 2005 levels.

The programs for low-income students that would be eliminated are Upward Bound and Talent Search, which are part of the federal TRIO programs for disadvantaged students, and Gear Up, which concentrates especially on helping financially needy middle-school students. Backers of the programs said the Bush administration would have a hard time getting its proposal through Congress because all three programs have strong bipartisan support.

Speaking at a gathering of more than 800 supporters of Gear Up in Philadelphia last week, U.S. Rep. Chaka Fattah, a Pennsylvania Democrat who helped conceive the program, called the president's proposal "nonsensical and utterly irresponsible."

"Gear Up is improving the life chances of students from the poorest families around the nation," he said.

ENDING THE SHORTFALL

At the department's news conference, Margaret Spellings, the education secretary, emphasized that the president's Pell Grant proposal would not only increase the maximum grant by \$500 over five years, but also "end, once and for all, the program's shortfall, which has been an impediment to enhancing the award."

During his first term, Mr. Bush asked Congress to increase appropriations for Pell Grants by 47 percent. Still, the maximum grant has remained at \$4,050 for the past three years because the appropriations have not been enough to keep up with an unexpected surge in demand for the awards. Although the grant program was not created as an entitlement, it functions like one: Grants are awarded to all eligible students, even if the program runs in the red.

Bush-administration officials and Republican Congressional leaders have been reluctant to call for increases in the maximum award until the program's deficit is covered. But now the administration has found a creative way to overcome that problem. If enacted by Congress, the proposals would significantly change—at least temporarily—the way the maximum grant is set.

Now it is up to Congress to set the maximum award each year. Under the president's proposal, Pell Grants would operate more like a true entitlement program, such as Medicare or Social Security, with scheduled increases in the top grant—of \$100 a year for five years—taking effect automatically.

Mr. Bush's proposal does not provide any additional money to pay for his plan, which would cost about \$19-billion. Instead it relies on "reforming" the federal student-loan programs, the budget documents state. In addition to pulling out of the Perkins program, Mr. Bush proposed paying for his Pell Grant plan by reducing some subsidies that the government provides to banks and other types of lenders for making low-interest loans available to students. Included in those proposals is a plan that would make lenders and guarantee agencies, which insure federal student loans, assume a higher share of the risk that students will default on their loans.

"Problems in the structures of the current student-loan programs prevent them from meeting all their policy and program objectives," the budget documents state. "Specifi-

cally, the federal government assumes almost all of the risk for the loans, while federal subsidies to intermediaries—lenders and guarantee agencies—are set high enough to allow the less-efficient ones to generate a profit. These problems lead to unnecessary costs for taxpayers and prevent the program from achieving the efficiencies the market is designed to improve."

Under the plan, the amount that the government reimburses lenders for loans that go into default would be reduced to 95 cents from 98 cents for every dollar that is not paid back. The amount the government reimburses guarantee agencies, which collect on defaulted loans, would be reduced to 92 cents from 95 cents.

LENDERS UNHAPPY, TOO

Loan-industry officials said they supported the president's plan to increase the maximum Pell Grant but did not believe that reducing the amount lenders and guarantors could earn was the right way to pay for it. "We have to work with the president to see if there are other ways to achieve his goal of strengthening and enhancing the Pell Grant Program," said Brett E. Lief, president of the National Council of Higher Education Loan Programs, which lobbies on behalf of guarantee agencies.

The president would also pay for his plan by backing a proposal in the House of Representatives that would save money by making a federal program for consolidating student loans less attractive to borrowers. Under that plan, introduced by key Republicans as part of legislation to renew the Higher Education Act, borrowers would no longer be able to lock in a low, fixed interest rate for up to 30 years. Advocates for students and many Democratic lawmakers oppose that change.

Luke Swarthout, a higher-education adviser for the State Public Interest Research Groups, said the proposal would "cost students thousands of dollars in increased interest payments."

With opposition from college lobbyists, student advocates, and loan-industry officials, it is unclear whether Mr. Bush will be able to push his Pell Grant proposal through Congress. To get it enacted, lawmakers would have to make many of the proposed changes in the legislation to renew, or reauthorize, the Higher Education Act, which governs most of the government's student-aid programs.

Administration officials expressed little concern about their prospects last week. They did warn, however, that if Congress did not act quickly on renewing the law, which expires this year, lawmakers would have a difficult time meeting the president's objective to increase the maximum grant by \$100 in the 2006 fiscal year, which begins October 1.

"This sets the priority to get reauthorization done this year," Sally L. Stroup, the Education Department's assistant secretary for postsecondary education, said in an interview following the news briefing. "It needs to be done before September 30."

OTHER CHANGES PLANNED

The president's spending plan would make some other significant changes in federal student-aid programs. It would:

- Put a time limit on how long students could receive Pell Grants to pay for college. Under the plan, students would remain eligible for Pell Grants for eight years, or the equivalent of 16 semesters. Now, the government does not place a lifetime limit on the number of years an individual can receive a Pell Grant to pay for an undergraduate degree.

Paying a Price for Pell Grants

As part of his 2006 budget request, President Bush found a creative way to raise the maximum Pell Grant by \$500, to \$4,550, over the next five years, and to eliminate a \$4.3-billion shortfall that has plagued the program.

Normally, it is up to Congress to set the maximum award each year. Under the president's proposal, Pell Grants would operate more like a true entitlement program, such as Medicare or Social Security, with scheduled increases in the top grant—of \$100 a year for five years—taking effect automatically.

Mr. Bush's proposal does not provide any additional money to pay for his plan, which would cost about \$19-billion over the next 10 years. He would pay for it by doing the following:

- Eliminate the Perkins Loan program and require colleges to return the federal share of the money they use to make new Perkins Loans to students from low- and middle-income families. Savings: \$6-billion

- Restructure the federal student loan-consolidation program so that borrowers who refinance their government-backed loans would no longer be able to lock in a low fixed interest rate for up to 30 years. Instead, the borrowers would be charged a variable rate. Savings: \$3.7-billion

- Make changes in the guaranteed student-loan program that would cut the government's costs in running the program. Savings: \$10.4-billion* Among the proposed changes:

- Permanently close a loophole in the law that has provided billions of dollars in subsidies to some lenders that have financed new student loans with tax-exempt bonds issued before 1993.

- Make lenders and guarantee agencies, which insure federal student loans, assume a higher share of the risk that students will default on their loans.

- Require students to pay a fee, equal to 1 percent of the amount they have borrowed, to student-loan-guarantee agencies.

- Reduce to 16 percent from 23 percent the amount that guarantee agencies can keep for themselves from the money they recover from borrowers who default. The rest goes to the U.S. Treasury.

- Charge lenders a 0.25-percent fee on the outstanding balance of federal loans on which they are collecting payments.

- Increase to 1 percent, from 0.5 percent, the one-time fee that lenders in the guaranteed-loan program must pay the government to consolidate a borrower's loans.

*Some of this money would also go to raising the amount of money students in their first two years of college can borrow from the federal student-loan programs.

SOURCE: FEDERAL BUDGET

Increasing the Pell Grant

by fiscal year



- Allow Pell Grant recipients to use their awards year-round, providing the students with more flexibility. Students can now use their Pell Grant awards only over the nine months of a traditional academic year.

- Revise the formula that the government uses to distribute money for two campus-based federal student-aid programs—College Work-Study and Supplemental Educational Opportunity Grants—to ensure that those programs are serving the neediest students.

- Allow borrowers to refinance their federal student loans more than once so they could take advantage of better interest rates. Those borrowers would have to pay a 1-percent origination fee to reconsolidate their loans.

- Require students to pay a fee, equal to 1 percent of the amount they have borrowed, to student-loan guarantee agencies.

The president would also create several new programs, including ones that would:

- Reward low-income students who take specific college-preparatory courses in high

school with an additional \$1,000 in Pell Grants for their first year in college. Students eligible to receive those funds would be required to take part in State Scholars programs, which now operate in 13 states.

- Provide students who are eligible for Pell Grants with an additional \$5,000 annually if they agreed to study mathematics and science in college. That proposal would cost \$100-million, half of which would be paid by the government and half by private sources. The budget documents do not specify who those private sources would be.

- Provide \$125-million to create a new grant program to help community colleges improve their services to students. According to the budget documents, the money would be used to provide incentives to community colleges to create dual-enrollment programs, which allow high-school students to earn college credit, and to states to make it easier for students to transfer credits earned at community colleges to four-year institutions.