nassgap

Washington Update – Spring 2014

Education is a hot topic in Washington, as well as across the country, these days, with a lot of attention lately to "Common Core" standards and testing. In higher education, a lot of the innovation in how to best invest taxpayer dollars in our students and institutions is occurring at the state level, and some folks in Washington are taking note. This update covers some of the latest developments in Washington, while also laying out some of the issues that could be addressed by Reauthorization of the Higher Education Act.

<u>Federal Fiscal Year 2015 Budget</u>
The FFY15 budget and appropriations process seems to be moving forward under the construct of the Bipartisan Budget Act (BBA), which set spending caps for discretionary spending for both FFY 2014 and 2015. Both the House and Senate are moving forward with the appropriations process based on these spending caps. While the House Budget Committee has proposed some changes, including significant cuts to education, as well as to how the Pell Grant program is funded, the Senate Budget Committee has no plans to move the House plan forward, meaning that the BBA remains the budget law of the land. That being said, individual programs are still subject to the appropriations process, but generally are getting funded at or near pre-sequestration levels.

The President's FFY 2015 Budget was released in early March and proposed to level-fund (or provide nominal increases to) most programs, with a few exceptions. This budget is not likely to see a vote on the House or Senate floor. Portions of the President's Budget of interest to NASSGAP members include:

- No funding for College Access Challenge Grants (CACG) – mandatory funding of $150 million annually expires with the upcoming award of FFY 2014 funds. While CACG was previously funded with discretionary funding, that option seems to have gone away, although CACG is not listed in programs proposed for consolidation or elimination.
- The Administration proposes a new program of great interest to NASSGAP members, establishing a State Higher Education Performance Fund - $4 billion in mandatory funding to match states $1 for $1 if they:
    - Have strong credit transfer agreements

  - Offer career pathways programs for HS students and working adults
  - Award state aid primarily based on need
  - Improve transparency for students and families researching return on college investment

- Another new Administration proposal is the $7 billion College Opportunity and Graduation Bonus, which would pay colleges for graduating Pell recipients, not just for providing access to college, better aligning the interests of student, taxpayer, and institution.

<u>Negotiated Rulemaking</u>
The US Department of Education (ED) has convened panels to try to reach consensus on issues including the use of debit cards to disburse excess student aid funds, “gainful employment”, and credit criteria for Parent PLUS loan borrowers. At this point, there appears to be little consensus on major issues, so stay tuned to see how ED proceeds.

<u>Reauthorization</u>
Many hearings have been held both by the House Education & the Workforce Committee and the Senate Health, Education, Labor & Pensions Committee, which have jurisdiction over reauthorizing the Higher Education Act (HEA). The only area of bipartisan consensus, so far, seems to be that more and/or better loan counseling is needed before students and parents sign up for loans they may or may not be able to afford. While the two Committees plan to mark up draft HEA legislation over the next few months, they will be doing so independently, and it is not clear that any Reauthorization legislation will make it to the floor of either chamber this year – and almost certainly not before the November elections.

While a lot of attention was paid last year to the Gates Foundation’s Reimagining Aid Design and Delivery (RADD) project, it is not clear what kind of impact RADD is having on the Reauthorization process. There seems to be some momentum behind moving to a “one grant, one loan” system, which presumably would mean the end of Supplemental Educational Opportunity Grants and Perkins loans, but there are also proposals to reform or expand both of those programs.

Other topics discussed at length include bringing back Year-round Pell, refining Satisfactory Academic Progress standards, and reinstating Title IV eligibility for some “Ability-to-Benefit” students, particularly adult workers. By the way, given that the majority of students are now “non-traditional” (i.e., not 18-24 year old students attending full-time), the House Education & the Workforce Committee coined a new phrase to describe them: “contemporary students”.

As mentioned at the start of this update, states have taken a lead role in exploring how “performance funding” can incent students and/or institutions to better meet what might be considered the common goal of federal and state governments' investments in higher education. A summary of that goal: to maximize the number of students receiving degrees or certificates, enabling them to fill 21st century jobs, at a minimum cost to taxpayers.

States have implemented a broad range of solutions to address performance funding, using both carrots and sticks to incent students, while also rewarding institutions that achieve metrics established by the state. A major focus on the student side is on ensuring students take a course load that will ensure they graduate in four years (or less) from bachelor's degree programs. The "carrot" may be a larger grant for taking a 15 credit course load, while the "stick" may be a loss of grant funding for failure to successfully complete 30 credits in an academic year, but there are several different approaches used across the many states offering performance funding. Some states are also encouraging students to use the summer session to stay on track for a four year graduation.

These state programs have garnered attention in Congress as well. Indiana's 21st Century Scholars program won extensive praise during a House Education & the Workforce Committee hearing in early December. At a more recent House hearing, Secretary of Education Arne Duncan referred to Tennessee Governor Haslam as "extraordinary" and noted that the Governor "influences" his thinking. Tennessee's outcomes-based funding program allows institutions to "earn" additional appropriations by exceeding target metrics such as degrees or certificates earned, successful credit hours completed, and job placements, among many other metrics. There are separate metrics for two and four year institutions.

Other states with programs showing a track record of success include Connecticut, Hawaii, Maine, Minnesota, Texas, Washington, and West Virginia. In some states, the percentage of students completing 15 credits per semester or graduating on time has almost doubled when compared to students not participating in the performance funding program. Let's hope the best of these programs are reflected in upcoming drafts of HEA Reauthorization!

By the way, if you would like to share the results of your state's performance funding initiatives on the NASSGAP website, please let us know: nassgap@nassgap.org or frank@nassgap.org.

Planning Ahead for the Upcoming Academic Year(s)

ED issued a Dear Colleague Letter addressing cuts to TEACH and Iraq-Afghanistan Service Grants, along with increases in FDLP loan origination fees. You can find that information here: http://ifap.ed.gov/dpcletters/GEN1410.html

Additionally, based on the 10 Year Treasury bond auction held on May 7, interest rates have been set for new Stafford and PLUS loans originated with a first disbursement date on or after July 1, 2014. The rates, which all increased 0.8% over loans for 2013-14 are:

- Undergraduate Stafford loans (sub and unsub) 4.66%
- Graduate Stafford loans 6.21%
- Grad PLUS and Parent PLUS loans 7.21%

These interest rates for unsubsidized Stafford and PLUS loans remain below the rates in place prior to the enactment of the Bipartisan Student Loan Certainty Act (BSLCA) – 6.8% and 7.9%, respectively. By the way, you may recall that the BSLCA required a study of student loan interest rates to determine what the “break-even” interest rate might be; the Government Accountability Office released its report earlier this year (http://www.gao.gov/products/GAO-14-234), concluding that it is not possible to determine a break-even rate. So while there will be proposals to lower student loan interest rates, or to refinance existing higher rate loans, these proposals are unlikely to move forward on a bipartisan basis.