



# LEGISLATIVE ALERT

**BY THE COMMITTEE ON THE BUDGET, REPUBLICAN CAUCUS**

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## **NEW PROGRAMS, MORE SPENDING IN STUDENT AID ‘DEFICIT REDUCTION’ BILL**

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### **SUMMARY**

On the same day the Federal Reserve Chairman was warning Congress about Federal spending and deficits, the Education and Labor Committee reported legislation that:

- Nationalizes all Federal student loans.
- Creates ten new entitlement programs.
- Expands Washington’s role in education.
- Distorts the budget reconciliation process to create new entitlement spending that will add to the already unsustainable budget commitments of the Federal Government.
- Increases the deficit by \$39 billion, when the long-term costs of its new entitlement programs are taken into account.

As reported on 21 July 2009, the Student Aid and Financial Responsibility Act (H.R. 3221) results in a net increase of \$5.7 billion in spending, when its full costs are taken into account. The official estimate by the Congressional Budget Office [CBO] shows the bill yields net mandatory savings of \$7.8 billion. But the measure also requires \$13.5 billion in additional discretionary spending to administer the new government-run direct lending program, thereby resulting in the \$5.7-billion net spending increase.<sup>1</sup> But the real costs of the legislation are likely to be even higher, because the measure assumes its new entitlements will sunset at various dates. If these sunsets do not occur, CBO estimates the bill will increase the deficit by \$39 billion.

The Education and Labor Committee has reported two versions of the bill. One is a stand-alone measure that could be brought to the floor at any time. The second has been reported to the Budget Committee, because the legislation is called for by reconciliation instructions in the fiscal year 2010 budget resolution (S. Con. Res. 13).

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<sup>1</sup> Congressional Budget Office, cost estimate for H.R. 3221, Student Aid and Fiscal Responsibility Act of 2009, 24 July 2009.

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But the budget reconciliation process was not intended as a means to create new mandatory spending. Employing it to expand government programs violates its intent, as Senator Robert C. Byrd has said:

The misuse of the arcane process of reconciliation – a process intended for deficit reduction – to enact substantive policy changes is an undemocratic disservice to our people and to the Senate’s institutional role. Reconciliation, with its tight time limits, excludes debate and shuts down amendments. Essentially it says “take it or leave it” to the citizens who sent us here to solve problems, and it prevents Members from representing their constituents’ interests. Everyone likes to win, and the Obama administration, of course, wants victories. But tactics that ignore the means in pursuit of the ends are wrong when the outcome affects Americans’ health and economic security. Let us inform the people, get their feedback, allow amendments to be considered and hear opposing views. That’s the American way and the right way.<sup>2</sup>

#### KEY POINTS

- **Illusory Savings.** Under the new CBO estimate, the Student Aid and Fiscal Responsibility Act will still claim to dedicate \$7.8 billion to deficit reduction. But changes in the bill require that an additional \$13.5 billion in discretionary funds – subject to annual appropriations – be spent on administrative costs and Pell Grants. The government-run direct loan program depends on appropriations to fund its administrative costs. These funds are not provided in this bill, but CBO does provide an estimate of them. If these costs are included, the bill actually increases spending by \$5.7 billion instead of saving anything.<sup>3</sup>
- **Government Takeover of Student Loans.** The legislation abolishes the 40-year-old guaranteed lending program that has leveraged hundreds of billions of dollars in *private* capital to help students go to college. In its place, the government-run Direct Loan [DL] program will issue and profit from all new loans that will be financed with Treasury borrowing. With the annual loan volume expected soon to reach \$100 billion, Treasury borrowing for student loans could reach \$1 trillion over 10 years. This would add to the government’s already alarming borrowing levels.
- **Increase of \$40 Billion for Pell Grants.** The bill directs less than half of its estimated savings toward expanded funding for Pell Grants.
- **More Entitlement Spending.** The bill creates a number of new entitlement programs that do not directly benefit students and will require future spending by the Federal and State governments. The legislation sunsets these programs at various dates (as indicated

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<sup>2</sup> *The Washington Post*, 22 March 2009.

<sup>3</sup> CBO op. cit.

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below); but once the programs are launched, there will be great pressure to extend them; *and if they do not sunset as scheduled, they will add another \$39 billion in spending, according to figures from CBO.* These programs include the following:

- *College Access and Completion Fund.* The bill provides \$3 billion for a new system of grants to State, local, and philanthropic organizations to establish information-sharing programs and encourage students to complete their degrees. Sunsets after 5 years.
- *Funding for Minority Serving Institutions.* A sum of \$2.6 billion is included – \$255 million in mandatory spending each year for 10 years – to extend “temporary” funding for institutions serving minority students. Sunsets after 10 years.
- *Revised Perkins Loans.* The bill creates a new \$6 billion program for Perkins Loans that would function as another direct lending program for student aid. Sunsets after 10 years.
- *Grants for Modernization, Renovation, or Repair of Public Schools.* The measure spends \$4.1 billion to create a new program of mandatory funds to States to modernize, renovate, or repair public schools. Sunsets after 2 years.
- *Community College Initiative.* A total of \$7 billion is provided for a new community college initiative that overlaps with existing job training programs administered by the U.S. Department of Labor. Sunsets after 10 years.
- *Construction for Community Colleges.* States receive \$2.5 billion in grants to construct new community college facilities and modernize, renovate, or repair existing facilities. Sunsets after 1 year.
- *Early Learning Challenge Fund.* Another \$8 billion is provided for a new early learning program that sunsets after 8 years. The grant program requires States to match the funding, change laws governing early childhood education, and develop certain early learning programs and services that will likely lead to long-term additional spending. Otherwise, States might view this as an unfunded mandate and seek continued funding to maintain this program once the money runs out.
- *Cooperative Education.* The bill provides \$10 million in mandatory spending in fiscal year 2010 for cooperative education, a discretionary program created in the Higher Education Act reauthorization that has not been funded by the Appropriations Committee. Sunsets after 1 year.
- *Supplemental Grants for Louisiana, Mississippi, and Alabama.* A sum of \$70 million is provided for grants to local educational agencies in Louisiana, Mississippi, and Alabama. Funds are intended for modernizing, renovating, repairing, or constructing public school facilities. Sunsets after 2 years.

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- *Supplemental Education Grants for Veterans.* The bill also provides \$1.9 billion for a new grant program for certain veterans who are eligible for education benefits under the Post-9/11 GI Bill. The funds are to help these veterans cover the cost of tuition at more expensive schools. Sunsets after 10 years.
  - **Removal of Drug Deterrence.** The bill eliminates the restriction limiting the eligibility of students *convicted* of drug possession to receive taxpayer-subsidized financial aid.

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