SOUTH WEST ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Submitted by
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Legislative Issues Chair

Status of Significant Student Financial Assistance Issues

CBO Hikes FY 2003 Deficit Forecast to $400-Plus Billion

Citing weak revenues and passage of new tax cuts, CBO's Monthly Budget Review yesterday increased its FY 2003 budget deficit forecast to "more than $400 billion." This is about $100 billion higher than last month's forecast of "over $300 billion" and $150-plus billion higher than the March baseline forecast of $246 billion. The review notes that the figure is almost four percent of GDP.

The Review is based on monthly Treasury statements showing actual cash balances through April, plus daily Treasury statements for May; thus, it captures the first eight months of this fiscal year. It is not so much a formal forecast as it is a reality check on the most recent formal forecast (March baseline).

The budget deficit totaled $291 billion for the eight months of FY 2003, CBO says, compared with a $145 billion deficit for the same period last year. Here's a comparative breakdown:

Budget Totals Through May
(In billions of dollars)

October-May Estimated

	FY02	FY03	Estimated Change
Receipts	1,219	1,159	-60
Outlays	1,364	1,450	86
Deficit(-)	-145	-291	-146

SOURCES: Department of the Treasury; CBO.

Receipts. On the income side, receipts dropped about $60 billion, or 4.9 percent, compared with the same period last year. The largest dollar amount of the drop has come from individual income tax receipts, which have fallen $46 billion from last year's pace. Both collections for 2002 taxes and withholding for future taxes have fallen off. CBO says that "information is not yet available to explain the sources" of the decline in 2002 taxes received, although one can surmise that it has something to do with continued economic weakness and tax cuts.

Although corporate taxes fell the most in comparative terms—25.9 percent from last year's rate—the cause has to do with the timing of certain payments that inflated FY 2002 corporate tax receipts. Adjusted for that technical factor, corporate tax payments remained about the same, CBO says.

Here is a rundown of the receipts picture:

Receipts Through May
(In billions of dollars)

October-May

Major Source	**FY02**	**FY03**	**Percentage Change**
Individual Income	563	517	-8.2
Corporate Income	89	66	-25.9
Social Insurance	472	481	2.0
Other	95	94	-0.4
Total	1,219	1,159	-4.9

SOURCES: Department of the Treasury; CBO.

Outlays. On the outlay side, defense and unemployment insurance are the bog gainers, while net interest on the public debt actually fell by $9 billion (7.3 percent) from last year's levels. Defense spending is running at about 14 percent above the FY 2002 levels, on an adjusted basis. The economic downturn has forced unemployment insurance payments to $5 billion (13.7 percent) above last year's levels. Here's a table that summarizes the eight-month outlay picture:

Outlays Through May
(In billions of dollars)

October-May

Major Category	**FY02**	**FY03**	**Percentage Change**	**Actual Adjusted***
Defense—Military	220	253	15.3	14.1
Social Security Benefit	297	309	4.1	4.1
Medicare	171	186	8.3	6.3
Medicaid	97	104	6.9	6.9
Unemployment Insurance	35	40	13.7	13.7
Other Programs	423	446	5.4	6.1
Subtotal	1,243	1,338	7.6	7.3
Net Interest on the Public Debt	121	112	-7.3	-7.3
Total	1,364	1,450	6.3	6.0

SOURCES: Department of the Treasury; CBO.

*Excludes the effects of payments that were shifted because of weekends, holidays, legislative action, or changes in the accounting of certain health payments of the Department of Defense.

The budget won't feel the effects of the recently-passed tax cuts until June, CBO says, which means that they will show up for the first time in next month's report. The political firestorm over the worsening budget picture, however, is certain to continue heating up. Although a budget deficit that reaches four percent of GDP doesn't necessarily make economists worry (it exceeded 30 percent at the height of WW II), critics of the administration will doubtless want to remind Americans that the last time it breached five percent was in 1991-1992, when George H.W. Bush was president. Democratic contacts are reminding us that when OMB Director Daniels appeared before the House and Senate Budget Committees last February to discuss the president's budget, he called the $304 billion deficit that was forecast at that time to be “moderate and manageable.” At some point, critics will assert, the deficit will become immoderate and unmanageable, and they will be challenging the administration to be more specific about what it intends to do.

By the same token, these developments will also prompt fiscal conservatives to renew efforts to rein in spending. Look for a hot appropriations season where both Republicans and Democrats are giving the leadership grief.

302(B) Negotiations Start To Heat Up

The administration and congressional leadership are working to nail down the so-called 302(b) ceilings—the amounts that the 13 appropriations subcommittees are allowed spend. Right now, appropriations subcommittee staffs are going through page proofs of their bills, but with blank spaces where the numbers are supposed to be. They can't proceed until the committee chairs agree with their subcommittees on the 302(b) caps; the committee and subcommittee chairs in turn are resisting the rather tight numbers that the budget resolution has given them. Critics are starting to complain that the process is falling behind.

Here are the dates over the past few years when the House subcommittees announced their 302(b) ceilings:

FY 2003: June 25, 2002 (deeming resolution) - Final appropriations bills passed four and one half months into the new year.
FY 2002: June 13, 2001—Final bills passed three months into the new year.
FY 2001: May 15, 2000
FY 2000: May 25, 1999
FY 1999: May 14, 1998

Two items in the budget resolution particularly irritate the appropriators:

Section 501 of the resolution places new limits on advance appropriations. The budget resolution's number for discretionary appropriations—the so-called 302(a) ceiling—are about $2 billion less than the president's budget number of $782 billion.

It will probably be several days before the subcommittees can begin marking up their bills. Given the rather fluid situation, nothing would surprise us from this meeting except an outright admission from the leadership that negotiations over the 302(b)s are stuck.

The bottom line: Though this year's situation is hardly anything to boast about, it's also not entirely out of bounds. Just the same, the leadership with each passing day will have to face critics who charge that the process is getting bogged down. In addition, any resolution of this rather sticky situation will almost certainly provoke cries of budget gimmickry and wishful thinking.

Congressman Miller Questions Education Rule Change

Congressman George Miller (D-CA), the Ranking Member on the House Committee on Education and the Workforce, has called for hearings on, and a suspension of, a recent Education Department rule change that will raise the family contribution for needy postsecondary education students by modifying the formula used to distribute most of the $90 billion in federal student financial aid funds to students and families.

Essentially, the rule change, which is the annual update to the federal need analysis, published in the Federal Register last week, will change the need analysis formula to increase a family's discretionary income and, therefore, the part available for the cost of a postsecondary education. The formula allows a deduction of certain family expenses and assets, like state and local taxes. The Department is proposing that this deduction be reduced by varying amounts for student aid applicants. This will result in students and families who receive federal nee-based student financial aid receiving less federal aid and paying more of the cost themselves.

The new rule can be accessed at: www.gpoaccess.gov/FR/index.html.

The following press release was distributed by his office last week.

House Education and Workforce Committee Senior Democrat George Miller (D-CA) today sent the following letter to Committee Chairman John Boehner (R-OH) in response to a front-page story in June 13, 2003 New York Times. The article cites an education rule change that would deny some needy students financial aid and forces students to pay more for higher education. Miller called on Boehner to hold a committee hearing on this issue to ensure no student is harmed by these regulations.

Miller also intends to offer legislation to suspend implementation of this rule change so that students won't be harmed.

The full text of the letter follows.

June 13, 2003

The Honorable John A. Boehner
Committee on Education and the Workforce
2181 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Boehner,

Today's New York Times documents that revisions of the Federal needs analysis methodology for the 2004-2005 award year will result in substantially higher college costs for a large number of American students. These updates, which were completed by the Department of Education without review or approval by the Congress, effectively will eliminate Pell grant eligibility for needy students or will reduce Pell grant awards or the amount of subsidized loans these students can receive. These changes will force students to mortgage their future by going further into debt to attend college.

At a time when the costs of attending college are growing higher every month, as states and private institutions raise tuition and other costs, we question the timing of these revisions.

As described in today's New York Times, the Department's revisions to the allowance for State and other taxes are based on three-year-old data. At the time these numbers were compiled, our country had yet to enter the downward economic spiral that we find ourselves in today. Students are going to be denied critically needed financial aid because of the poor performance of the economy. Unfortunately, the failure of the Bush Administration to ensure economic viability has now come to rest on the backs of needy college bound students.

As we embark on the reauthorization of the Higher Education Act (HEA), ensuring that calculations of Federal aid reflect the current economic condition of our students should be a top priority. We would propose that this hearing focus on ways to ensuring that the process used to update needs analysis methodology reflects the most current data so that students are eligible for the maximum level of college assistance.

We believe this hearing would be enormously useful to the Committee as we consider changes to the HEA later this Congress. We look forward to your favorable response to our request.

Sincerely,

GEORGE MILLER
Senior Democrat
Committee on Education and the Workforce