



*Submitted by  
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## **CBO Estimates FY 2003 Budget Deficits At \$401 Billion**

CBO's August Monthly Budget Review (MBR), released on August 8, 2003, estimates the FY 2003 budget deficit at \$401 billion. The figure, while in line with estimates from the previous few months, is more than \$150 billion over CBO's March baseline forecast of \$246 billion. Interestingly, the number falls short of the \$455 billion estimate released by the Office of Management and Budget in its Mid-Session Review (MSR).

Most of the \$54 billion dollar difference between CBO and OMB reflects expectations of lower spending in the Monthly Budget Review. CBO's baseline scoring uses current law to model its estimates, while OMB numbers reflect expectations that Administration policies will be enacted. CBO's expectations for spending at the Department of Defense are \$18 billion lower than OMB's, while Homeland Security, International Affairs, and Agriculture make up another \$12 billion of the difference. CBO's numbers do include \$53 billion in reduced revenue from the President's tax cuts and \$33 billion in increased spending for the Emergency Wartime Supplemental.

When comparing the difference between the FY 2002 shortfall and the FY 2003 shortfall, CBO traces approximately one-third of the increased deficit to decreased receipts (primarily from tax cuts), and finds the remaining two-thirds of the increased deficit in spending increases. Here's CBO's comparison of the FY 2003 deficit predictions from its last benchmark, current estimate and OMB's MSR:

### **Projections for Fiscal Year 2003**

(In billions of dollars)

Receipts	1,891	1,770	1,756
Outlays	2,137	2,170	2,210
Deficit	-246	-401	-455

Democratic and Republican positions on these new numbers can be summed up in the second sentence of the report, "In dollar terms, that shortfall would be the largest in U.S. history, but at less than four percent of gross domestic product (GDP), it would be well below the peak levels of the 1980s relative to the size of the economy." Democrats will argue that the Administration has created the largest budget deficits in American history, while Republicans will counter that the numbers must be seen in the context of GDP and do not represent unreasonable budgetary priorities given war, recession, and terrorism.

CBO estimates a \$53 billion shortfall for the month of July—more than double last year's \$24 billion deficit. For July, revenues were off last year's total by \$10 billion—\$4.5 billion was sent out in child tax refund checks, while roughly the same reduction resulted from new withholding rates. In a perennial

statistical fluke, this year's July had one less Monday than last year's July reducing the month's receipts by close to \$3 billion.

Outlays for the month were \$14 billion higher than last year's totals. CBO estimates that \$5 billion of this increase is defense spending, while another \$4 billion is for the Department of Health and Human Services.

### **Estimates for July**

(In billions of dollars)

	FY2002	FY2003
Receipts	134	124
Outlays	164	178
Deficit	-29	-53

The MBR indicates that outlays through July have grown by seven percent as compared to the same period last year. However, the report points out that defense spending has grown by more than double that amount (15.1 percent), and unemployment insurance spending has grown by 9.5 percent. Here's how CBO sees the picture for the first ten months of the fiscal year compared with FY 2002 numbers:

### **Budget Totals Through July**

(In billions of dollars)

October-July

	FY2002	FY2003
Receipts	1,536	1,477
Outlays	1,681	1,801
Deficit	-145	-324

With Medicare reform inching closer to reality, wild estimates for the cost of rebuilding Iraq making front page news, and a number of small supplemental appropriations fights still waiting to be fought (like AmeriCorp and wildfire prevention) there are plenty of changes that could still occur in the last two months of this fiscal year. But most of these factors will play more prominently in the long-term budget picture. Look for CBO to fan the flames of that debate when it releases its revised 10-year projections on August 26th.

### ***Senator Proposes Repeal of FFELP***

Senator John Edwards (D-NC) has once again proposed to repeal the 37 year old Federal Family Education Loan program (FFELP) and use the estimated savings he says will come from having only the Federal Direct Loan Program to increase funding for other federal student financial programs. The proposal was first unveiled late last year as part of the Senator's presidential campaign platform.

The latest proposal came during a speech Senator Edwards gave over the August 16<sup>th</sup> weekend.

The Direct Loan program, established in 1993, has never attracted more than 35 percent of the national student loan volume, and currently composes about 30 percent.

Senator Edwards, a Democratic presidential candidate, believes such a move would save “billions of dollars” each year and allow financial assistance to be provided to an additional three million students every year.

The FFELP established during the Lyndon Johnson administration in 1965 as a part of the landmark Higher Education Act, is a public/private partnership between the federal government and the private lending sector that combines a federal subsidy paid to private lenders in exchange for lower interest rates on student loans. The federal government also partially finances the operations of state, regional, and national guarantors to administer the national program on a local basis.

Under the Senator’s plan, the Direct Loan Program which uses the U.S. Department of Education as the sole lender to originate loans directly to the borrower using federal appropriations and federal borrowing would be the only major federal loan program.

The unspecified and arguable “savings” resulting from going from two to one loan program would be used to lower borrowing costs to student loan borrowers and to fund Senator Edwards proposed “college for everyone” proposal, which involves increased spending for the federal higher education Title III, Title IV, and Title V student financial aid programs, and free tuition for students who graduate from high school with a college preparatory diploma and attend and graduate from a community college.

No legislation has been filed, and it is presumed that the proposal will be a part of the Higher Education Act Reauthorization in 2004.

### ***Student Financial Aid-Related Bills In Congress***

The following bills are the major student financial aid-related legislation filed during the First Session of the 108<sup>th</sup> Congress.

Those with an asterisk are Higher Education Act Reauthorization-related bills.

#### **S. 1356**

FY 2004 Appropriations Bill for Labor, Health and Human Services, and Education agencies and programs. For student financial aid, the Senate and House bills maintain FY2003 spending levels for the Pell Grant (\$4,050 maximum annual grant), Supplemental Educational Opportunity Grant ((\$760 million), Work-Study (\$1.004.4 billion), Perkins Loan (\$166.5), and Leveraging Educational Assistance Partnerships (\$66.5) programs. Both bills provide \$300 million for the GEARUP program—an increase of \$6.9 million over FY 2003 and \$15 million over the administration’s request. Both bills provide \$487.5 million for minority serving institutions—an increase of \$15 million over FY2003, and \$17 million over the administration’s request. The Senate bill proposes \$840 million for the TRIO program, while the House bill proposes \$835 million. Current year funding for TRIO is \$827 million and the administration’s FY 2004 request is \$802.5.

Both the Senate and House bills have been reported from committee and are ready for consideration by the full Senate and House.

#### **Senate Concurrent Resolution 23/House Concurrent Resolution 95**

The FY 2004 budget resolution which establishes a blueprint for the Congress to follow in developing the thirteen FY 2004 appropriations bills. The Senate resolution funds education programs at \$80.3 billion. The House resolution funds education programs at \$75 billion—\$2 billion less than the Administration’s

request. The Senate resolution includes \$2.2 trillion in spending for 2004—including \$791 billion in discretionary spending, which includes funding for student financial aid programs, a \$4,500 maximum annual Pell Grant, “sense of the Senate” provisions calling for a maximum annual Pell Grant of \$9,000 by 2010, and increased funding for Title III institutions, and a reduced tax reduction. The House-passed budget resolution totals \$1.8 trillion—including \$776 billion in discretionary spending—and freezes student financial aid funding at current levels, and instructs the Appropriations Committee to identify \$9.7 billion in savings from education, health, and labor programs.

The resolutions are presently in a Senate/House conference committee which will adjust the differences between the two and report back a single resolution to the Senate and House for final adoption.

#### **\*HR 12**

The FED UP Higher Education Technical Amendments Act of 2003 incorporates provisions from last session’s failed HR 4866 by Representative Buck McKeon (R-CA). The bill includes the same provisions of the original HR 4866 as it was filed last summer, including:

- the extensions of the two provisions that expired on October 1, 2002 that allowed low student loan default rate schools to disburse loan funds in a single disbursement and to waive the 30 day delay for disbursement of loan funds to first time, first year borrowers;
- clarification of two return of Title IV funds issues;
- allowing requests for student loan repayment forbearances to be made in ways other than in writing;
- allowing students who were home schooled to be eligible for Title IV student aid.

Two new provisions added to HR 12 are:

- allowing the discharge of student loan debt for spouses of police, firefighters, rescue and safety personnel, and members of the Armed Forces who died or became permanent and totally disabled as a result of the September 11, 2001 attacks in New York and Washington, DC; and
- allowing the waiver of the 50 percent restriction on an institution’s ability to offer coursework through telecommunications for institutions with student loan default rates below 10 percent.

#### **HR 129**

Increases the Lifetime Learning Tax Credit Index from \$5,000 to \$10,000, directs the Comptroller general to determine if schools are raising their tuition rates in response to the increase, and expresses the sense of the House that the maximum Pell Grant should be \$4,700.

#### **HR 227**

Makes the student loan single disbursement rule for low default schools permanent.

#### **\*HR 438/HR 647**

Increases the student loan forgiveness amount for math, science, and special education teachers to \$17,500.

Passed by the full House.

#### **HR 501**

Establishes a student loan forgiveness program for nurses up to a total of \$17,000 over five years.

#### **HR 685**

Repeals the provisions prohibiting persons convicted of drug offenses from receiving federal student financial aid.

**HR 696**

Amends the provision prohibiting persons convicted of drug offenses from receiving federal student aid to those persons convicted while receiving aid.

**HR 734**

Establishes a student loan forgiveness program for social workers who work in child protective service capacities.

**HR 789**

Expands eligibility for student loan forgiveness for teachers to teachers who work in economically depressed rural areas of the country.

**HR 838**

Repeals the National Advisory Committee on Institutional Quality and Integrity and provisions that relate to the use of accrediting agencies to designate school as eligible to participate in the federal student financial aid programs, and directs the Education department to develop competitive methodologies to assess institutional eligibility.

**HR 934**

Incorporates provisions of HR 438, 647, and 501 into a single bill.

**\*HR 942/S. 835**

Repeals the student loan single holder provision.

**HR 1056/S. 512**

This legislation—**Generating Opportunity by Forging Educational Debt for Service (GOFEDS)**—proposes to allow the federal government’s student loan repayment program to operate as other employer student loan repayment programs by making the repayments made by a federal agency on behalf of an employee exempt from taxes

**HR 1304**

Amends the student interest tax deduction law by making it a tax credit and increasing the income eligibility ceiling.

**HR 1306**

**The College Opportunity for a Better America Act of 2003** provides student loan forgiveness of up to \$17,500 for student loan borrowers who are employed in public service jobs in shortage areas, including teachers, child care workers, nurses, and child welfare workers and replaces the income sensitive repayment provisions in the FFELP to income contingent.

**HR 1412**

**The HEROES Act** allows the Secretary of Education to excuse all military members called into active duty during the current conflict from making payments of their student loans, provide full refunds of tuition and fees not used as a result of military activation, and minimize application for reenrollment into college for eligible military members.

Passed by the House and Senate; sent to President.

**\*HR 1684**

**The Student Adjustment Act** proposes amend the 1996 Illegal Immigration Reform & Immigrant Responsibility Act and the Immigration & Nationality Act to grant permanent legal residency status to middle school, high school, and college students who are undocumented immigrants who have been in the U.S. for at least 5 years.

**\*HR \_\_ - College Affordability in Higher Education Act of 2003**

This bill proposes to place a flexible federal cap on the annual increase in the cost of education at institutions of higher education that is equal to twice the rate of inflation. The bill also includes a “college affordability experimentation site program that proposes to provide regulatory relief to institutions that develop and implement “innovative approaches to delivering higher education while increasing college affordability”.

**\*HR \_\_—College Opportunity Act of 2003**

This bill proposes to increase the funding authorizations for all Title IV programs, TRIO, minority serving institutions, GEARUP, and loan forgiveness for student loan borrowers working in public service jobs.

**\*HR 2211**

**The Ready to Teach Act** proposes to align the teacher training programs in the HEA with those established under 2001’s No Child left behind Act (PL 107-110).

Passed by the full House.

**\*HR 2238**

**The Next Generation Hispanic Serving Institutions** bill is the Congressional Hispanic Caucus’ HEA Reauthorization legislation. The bill proposes to establish new grant program to promote graduate programs at Hispanic Serving institutions.

**\*HR 2504**

**The Student Loan Fairness Consolidation Act of 2003** proposes to allow student loan borrowers to refinance their consolidated student loan debt consolidated under the current variable rate formula for Stafford loans.

**\*HR 2505**

**The College Loan Assistance Act of 2003** proposes to allow student loan borrowers to refinance their consolidated student loan debt at a fixed, weighted average rate capped at 6.8 percent, increase the maximum Pell Grant to \$7,000 in 2004, and repeal the student loan origination fee.

**\*HR 2711**

**The Student Loan Fairness Act of 2003** is similar to 2504 and 2505. It proposes to repeal the single holder rule, allow reconsolidations of consolidated student loans at a variable rate of 2.3 percent plus the 91 Day Treasury Bill rate, capped at 6.8 percent, and also lowers the cap on Stafford and Plus loans 6.8 percent and 7.5 percent.

**\*HR 2956—Financial Aid Simplification Act**

This bill proposes to direct the federal Advisory Committee on Student Financial Aid to conduct another study on ways to simplify the SFA needs analysis process and the FAFSA, and to submit recommendations to Congress.

**\*S. 4**

Proposes a variety of education-related provisions and “sense of the senate” clauses, including, expanding student loan forgiveness for math, science, and special education teachers, increased authorized funding levels for Historically Black and Hispanic-serving institutions, expanding the deductibility of student loan interest, making prepaid tuition and savings programs tax exempt, and urging the Congress to consider higher education costs, academic preparation, increasing funding for student aid, simplifying the student aid application process, and improving accountability during the HEA Reauthorization.

**\*S. 8**

The Educational Excellence for All Learners Act of 2003 is the 48 member Senate Democratic Caucus’ primary education legislative vehicle for the two year 108<sup>th</sup> Congress. It is one of twelve bills filed as the Senate Democrats package of bills that defines its agenda for the current Congress. The package includes bills on homeland security, health care, a prescription drugs benefit, minimum wage, environmental protection, and Head Start.

\*S. 8 proposes to increase authorized funding levels for a variety of K-12 education programs, the TRIO and GEAR UP programs, Title III and Title V, and Pell Grants. The bill also repeals student loan origination fees, and makes Hope and Lifelong Learning tax credits refundable.

These bills, and related information, will be able to be accessed at:

[www.thomas.loc.gov](http://www.thomas.loc.gov).