South West Association of Student Financial Aid Administrators

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Congressional Budget Office Updates Ten-Year Projections

Given June FY 2003 deficit projections by the nonpartisan Congressional Budget Office (CBO) and the Administration's Office of Management and Budget (OMB), drastic forecasts (-$400 to -$455 billion) in CBO's ten-year budget and economic outlook could be expected. However, because the baseline scoring used by CBO, which requires a number of assumptions including that existing tax and spending laws enacted in 2001 will be allowed to sunset, the CBO's projections show a substantial reduction in the deficit over the next ten years.

The real story may lie in changes to the budget outlook that will be enacted into law over the next few months. With Medicare reform, military spending increases, and the elimination of sunset provisions on tax cuts looming in the near future, the 10-year budget outlook may soon look much more like the two-year predictions, which, among other things, will impact annual appropriations for many programs, including student financial aid.

Projected Deficits and Surpluses in CBO's Baseline (In Billions of Dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
On Budget Deficit	-317	-562	-644	-520	-425	-421	-434	-426	-417	-298	-143	-105
Off-Budget Surplus	160	162	164	179	199	219	237	255	273	289	304	317
Total Deficit Surplus	-158	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211

Source: Congressional Budget Office

In FY 2004 CBO sees budget deficits peaking at $480 billion, about 4.3 percent of Gross Domestic Product (GDP). A CBO graph tracking the deficit as a percentage of GDP shows the rapid improvement possible after FY 2004 **if current law is maintained.**

However, it seems unlikely that tax cuts will be allowed to sunset, and CBO sees the extension of those tax cuts as a revenue loss of $1.56 trillion dollars over the next ten years. Likewise, these numbers do not include the addition of a prescription drug benefit to Medicare or increased military spending for Iraq and Afghanistan. Even without accounting for the possible elimination of sunset provisions, CBO sees the president's tax cuts as accounting for $62 billion of this year's deficits, and $288 billion over the next ten years.

Also helping to improve the numbers over time is the increase in effective tax rates, which is often referred to as real bracket creep. Real bracket creep occurs when income grows at a rate greater than inflation, pushing taxpayers into higher tax brackets. Real bracket creep is especially problematic with regards to the Alternative Minimum Tax (AMT), which is not adjusted for inflation. Originally designed to ensure that the wealthiest Americans cannot escape their tax burden, the AMT creates a separate tax regime with less exemptions for taxpayers above a certain income level. The AMT increasingly affects middle class tax payers as bracket creep and inflation push more taxpayers over the threshold. Both Democrats and Republicans seem concerned enough to provide some form of AMT exemption, but this would amount to another revenue loss that the CBO roughly estimates at $400 billion over ten years.

In an effort to remain relevant in the policy debate surrounding the deficit, CBO has included "Budget Projections Under Alternative Scenarios." The table, perhaps the most informative part of the report, shows how CBO numbers can quickly turn less favorable.

The Budgetary Effects of Policy Alternatives Not Included in CBO's Baseline
In billions of dollars

Policy Alternatives that Increase the Deficit of Reduce the Surplus

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Extend Expiring Tax Provisions	3	-59	-113	-116	-109	-110	-108	-242	-349	-361
Reform the Alternative Minimum Tax	0	-8	-24	-34	-46	-60	-74	-64	-40	-49
Medicare Prescription Drug Benefit	-7	-10	-33	-38	-43	-46	-50	-53	-56	-64
Increase Discretionary Appropriations by the Growth Rate of Nominal GDP	-12	-35	-62	-91	-121	-151	-182	-213	-245	-279
Increase Discretionary Appropriations by 7.7 Percent	-26	-68	-116	-170	-228	-292	-361	-438	-521	-612

While only a portion of the table is excerpted here, it goes on to list a number of other possible changes including a freeze in discretionary spending, excluding some of the supplemental appropriations from the baseline (see below), and changes in debt service costs. A CBO graph shows that impending policy changes could create a whole new budget outlook.

CBO's numbers, following the requirements of Graham-Rudman Balanced Budget Act, treat supplemental spending as part of its baseline estimate. In the short term, this method may make sense, because more requests for spending in Iraq and Afghanistan will almost certainly be necessary. However, including the $79 billion in supplemental request for each of the next ten years may distort the long-term numbers.

Eliminating the supplemental spending from the budget predictions all together would save $818 billion over the ten years, but would not provide any accounting of future military costs.

In 2003 CBO expects revenues to reach 16.5 percent of GDP—the lowest level since 1956—which is down from 20.8 percent in 2000.

The report also points out that, if the deficit increases as predicted, the current debt ceiling of $7.384 trillion will be reached sometime in the last quarter of FY 2004.

Representative John Spratt, Ranking Member of the Budget Committee, represented the Democratic position in press conferences over the past two days. Calling the report "sobering news", he quoted the CBO saying that the outlook is a "substantial deterioration" over the March baseline estimates.

Budget Chairman Jim Nussle released a statement that concluded, "Deficits do matter—and the current deficit is too big. However, these are spending-driven deficits. Ending deficits will require a growing economy and controlling runaway government spending. We must do both."

The conclusion is that CBO's estimates show the deficit returning to a surplus over the next ten years, given that current law is maintained. However, this option seems highly unlikely, and increased Medicare and defense spending combined with the extension of tax cuts currently set to expire could result in a massive swing in the numbers. **This, in turn, will place even more pressure on the continuing congressional debates concerning annual appropriations for those programs, e.g., student financial aid and postsecondary education programs, that are funded through discretionary appropriations, i.e., funding that Congress controls. Expect the Congress to, once again, look for specific savings from these programs as FY 2004 appropriations (and future appropriations) are considered.**

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 108th Congress.

Those with an asterisk are Higher Education Act Reauthorization-related bills. Those with two asterisks are the major reauthorization bills introduced by the majority members.

S. 1356
FY2004 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 ($1.00.4 billion), Perkins Loan ($99.4), 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
FY 2003, 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 FY2004 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 set out a blueprint for the Congress to follow in developing the thirteen FY 2004 appropriations bills. The Senate resolution finds 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 forebearances to 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 institution's 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 Forgiving 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 and signed by the President on August 19, 2003.

***HR 1684**
The Student Adjustment Act proposes amend the 1996 Illegal Immigration Reform and Immigrant Responsibility Act and the Immigration and 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 five 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 HSis..

***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 108th 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.