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[Student Loan Rates] [1]

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OFFICE OF POSTSECONDARY EDUCATION
U.S. DEPARTMENT OF EDUCATION

600 INDEPENDENCE AVENUE, SW
ROB-3, ROOM 4004
WASHINGTON, DC 20202-5132

FACSIMILIE COVER SHEET

TO:	Bob Shireman	PHONE: FAX:	 202-456-2223
FROM:	James Kvaal	PHONE: FAX:	202-708-9132 202-708-7970
PAGES:	5 (including this cover)	DATE:	October 22, 1998
SUBJECT:	Direct Loan/SFA fact sheets		
COMMENTS:			

Pauline asked me to fax these to you.

The U.S. Department of Education
Improved Administration of Student Aid

September 1998

The Department of Education is working hard to strengthen student aid. In the past year, we have met our commitments to students and families, strengthened the management of the student aid programs, and reduced burdens on students, families, and schools.

Meeting Our Commitment to Students and Families

- **Smoothly delivering aid to students and families.** This fiscal year, the Department has delivered over $23 billion in student aid (including direct loans, campus-based aid, and Pell grants) and oversaw another $24 billion in government-guaranteed loans.

- **Meeting the Year 2000 challenge.** Every student financial aid computer system will be Year 2000 compliant within the OMB's government-wide deadlines.

Strengthening Program Management

- **Establishing the federal government's first-ever Performance-Based Organization (PBO),** a concept promoted by Vice President Gore's Reinventing Government effort. The PBO will have new administrative flexibility and more accountability for results and will be led by a Chief Operating Officer who is experienced in financial services and information technology. The Secretary will remain responsible for student aid policy.

- **Reducing loan defaults.** The cohort default rate has fallen for the fifth consecutive year, from a high of 22.4 percent in fiscal year 1990 to 10.4 percent in fiscal 1995. We have also more than doubled collections on defaulted loans, from $700 million in fiscal 1991 to $1.7 billion in fiscal 1997.

- **Reducing student aid fraud** through improved data systems and strengthened gatekeeping. For instance, the National Student Loan Data System (NSLDS) -- containing information on 37 million past and present financial aid recipients -- has helped prevent hundreds of millions of dollars in loans and Pell grants from being awarded to students who defaulted on previous loans.

- **Leveraging cutting-edge technology in the direct loan program,** creating a simpler, more automated, and more accountable system for students and schools. The Direct Loan program processes over 98 percent of loan origination records within the first 12 hours after it receives them from schools while delivering as many student loan dollars as the largest 15 government-guaranteed lenders combined.

Laying the Groundwork for Modernization

- **Integrating our programs and better leveraging private sector expertise** by contracting by function, rather than by program. We have already consolidated the NSLDS and the Postsecondary Education Participants System (PEPS) into one data center, with more systems to be included soon. The NSLDS relocation alone is expected to improve service while saving taxpayers more than $30 million over five years.

- **Establishing a single electronic identifier** for all schools and other institutions involved in student aid

- **Moving towards a single student point of contact.** The Department will launch a pilot program to integrate FAFSA on the Web with the California State University system's web-based application form in January 1999.

- **Creating a master promissory note** to relieve students from the need to submit new paperwork every time they borrow. The master note -- developed in consultation with the community -- can be used as an annual or a multi-year document beginning in academic year 2000-2001.

Reducing Burdens for Students and Schools

- **Simplifying the form for students.** The 1999-2000 Free Application for Federal Student Aid (FAFSA) form will be shorter, simpler, and clearer. We cut the length of the FAFSA in half, from 16 pages to eight; eliminated seven data elements; and clarified and improved the remaining instructions. The result: we need 100 million fewer sheets of paper, taxpayers are happy with the savings, and students and their families can complete the form in three-quarters the time.

- **Letting students apply for aid over the Web.** FAFSA on the Web is faster, easier, and cheaper for the student to file and the Department to process. Moreover, because of automatic prompts to resolve inconsistent or conflicting entries, only three-tenths of one percent of FAFSAs received via the Web have to be returned to the applicant because of incorrect or incomplete information, compared with 12 percent of paper FAFSAs.

- **Streamlining forms** based upon feedback from the financial aid community. For example, the eligibility/recertification form that once required institutions to answer more than 200 questions with a typewriter is now electronic, available on the Web, and requires most schools to answer only about 25 short-answer questions.

- **Using the Internet** to allow the financial aid community to access up-to-date program information quickly and easily through the Information for Financial Aid Professionals (IFAP) web site.

The Direct Loan Program
High-Quality Service to Students and Schools

September 1998

- The Direct Loan program offers less paperwork and faster service to students and schools than government-guaranteed lenders. For example, the Direct Loan program processes over 98 percent of loan origination records within the first 12 hours after it receives them from schools.

- Because of its quality service, the Direct Loan program now delivers roughly as many student loans as the largest 15 government-guaranteed lenders put together and has captured one-third of the student loan market in just four years. As a point of comparison: nearly nine years after the break-up of AT&T, it had not yet lost one-third of the market share it had as a monopoly.

- The Direct Loan program has also inspired improvements in the government-guaranteed loan program through competition, indirectly improving service to students and schools in that program as well.

- According to one NationsBank official, direct loans "introduced some ways of doing business and some delivery mechanisms that made private enterprise wake up a little bit . . . It was time for us to step forward and make some improvements or we would lose the business."

- Customer satisfaction rated very high in both the Direct Loan and government-guaranteed programs during the 1996-97 academic year, according to a recent independent evaluation by Macro International. Among all borrowers, 94 percent of students and 91 percent of parents expressed satisfaction with their overall loan experience. The vast majority of both student and parent borrowers perceived the loan origination process as easy or somewhat easy, with no significant differences between the two programs.

TWO STUDENT LOAN PROGRAMS
Continuous Improvement through Competition

Since its inception in 1993, the Direct Loan program has inspired improvements in the government-guaranteed loan program. Independent experts agree that students benefit from competing loan programs.

Independent Researchers. A recent independent evaluation by Macro International found a high level of overall satisfaction -- 78 percent of all schools -- with the Stafford loan programs. The study concluded that both loan programs benefit from competition.

- More than half of FFEL schools (56 percent) reported that services from banks and guaranty agencies have improved since the introduction of Direct Loans.

- As Macro writes, these findings suggest that "competition between the Direct Loan and FFEL programs has increased overall institutional satisfaction with the loan programs."

- "According to one school's director of financial aid, 'Once [ED] had two programs going, it was great. It was something that should have been done a long time ago. . . competition keeps [the banks] on their toes,'" the report reads.

FFEL Executives. Earlier this year in a national trade publication, NationsBank Senior Vice President James Gathard said of the Direct Loan program, "They are a competitor. They have introduced some ways of doing business and some delivery mechanisms that made the private enterprise wake up a little bit. To be perfectly honest, as a private enterprise we thought we were doing almost an A-plus job. When we stepped back a little bit, we saw some of the things the Department of Education was doing and we realized we weren't. We were doing maybe a B-minus job. It was time for us to step forward and make some improvements or we would lose the business. It's been relatively good for the industry, particularly for the recipients in terms of students and schools. They've seen the most positive effects from it."

Consumer Advocates. Elizabeth Imholtz says in *The Guerrilla Guide to Mastering Student Loan Debt*, "I think Direct Lending is the best thing that could have happened to the guaranteed student loan program, because now one program wants to look better than the other and that's a good thing. They're vying with each other to look more consumer-friendly, and we have been able to achieve some very nice things for consumers through that competition."

Office of Student Financial Assistance Programs
September 1998

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122 PRINTED ON RECYCLED PAPER

WAYNE COUNTY

Edward H. McNamara
County Executive

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On Sallie Mae Board (corp rep)

July 9, 1998

Mr. Bob Shireman
Senior Policy Advisor
National Economic Council
Old Executive Office Building
Room 235
Washington, DC 20502

Dear Bob:

It was very nice to meet you on Monday. Thank you for taking the time out of your busy schedule for us. Your thoughts and comments were most insightful and helpful. I look forward to seeing you again in the near future.

In the meantime, if there is anything I may do to be of assistance to you, please do not hesitate to call me or send me an e-mail. My e-mail address is mberger@bdslaw.com.

Very truly yours,

Mitchell

Mitchell W. Berger

MWB:bmc

cc: Mr. Morley Winograd

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7/9/98 wp8

Irene Nagurneded, Mitchell Berger   7/6/98

Ron Thayer, (Gov Blanchard Mich.), Chris Thomas (?)

(+ Jim Moore, Regina Montoya)

(Barry Munitz ?)

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PROPOSED AMENDMENT TO ADD MARKET BASED STUDY

AMENDMENT:

SEC. 802. STUDY OF MARKET MECHANISMS IN FEDERAL STUDENT LOAN PROGRAMS.

(a) STUDY REQUIRED.--The Secretary of Education, in consultation with the Secretary of Treasury, the Comptroller General, the Director of the Congressional Budget Office and entities making loans under part B of this title, shall design and conduct a study to identify means of establishing a market mechanism for use in determining lender returns on loans made pursuant to part B of this title.

(b) DESIGN OF STUDY.-- The study required under this section shall be designed through the collaboration of the entities identified in subsection(a). Such study shall include the identification of not fewer than three different market mechanisms for use in determining lender return on student loans while continuing to meet the other objectives of the programs under part B, including the provision of loans to all eligible students. The selection of options for a market mechanism shall be made through direct consultation of the entities involved in the design process.

(c) EVALUATION OF MARKET MECHANISMS. The study design shall include criteria for the design of each market mechanism to consider—

(1) the cost of loans to borrowers, including parent borrowers;
(2) the role of federal subsidies for borrowers on the operation of the market mechanism, including the in-school subsidy, federal guaranty and cap on the maximum chargeable interest rate;
(3) the effect of the market mechanism on the ability of borrowers to receive loans from a single entity;
(4) the effect on lender investment in human and capital resources, including loan servicing capability;
(5) the effect on the quality of customer service to the borrower;
(6) the effect of the market mechanism on the ability of all categories of current eligible lenders to continue to participate in the program, including the impact on originating and secondary market lenders and smaller, community-based lenders;
(7) the fairness of the market mechanism from the perspective of the ability of entities to compete under such mechanism;
(8) the effect of the market mechanism on oversight of the program by the Department of Education and guaranty agencies;

(9) the extent to which direct lending may be advantaged virtue of such a mechanism;
(10) the effect of availability of loans to student attending various types or categories of institutions;
(11) the extent it increases regulatory burden; and
(12) a plan to test the implementation of the mechanisms identified in the study.

(d) SPECIFICATIONS OF STUDY RESULTS. The study shall include information on each of the mechanisms identified to assist Congress in evaluating the feasibility of the use of each market mechanism in the program under part B and D. Such information shall include, at a minimum—

(1) the proposed federal role in the administration or operation of the market mechanism;
(2) details on how the market mechanism would operate;
(3) estimates of federal administrative costs associated with use of the market mechanism, including an explanation of the federal functions involved and the cost of each federal function;
(4) estimates of the cost of participation in the market mechanism for eligible lenders;
(5) estimates, on a comparison basis, of the federal costs associated with loans made pursuant to each of the market mechanisms, itemized to include each applicable cost category;
(6) identification of the effect of the market mechanism on loan availability and cost to borrowers under varying interest rate scenarios, as identified by the entities identified in subsection (a); and
(7) details on proposed transition procedures, including discussion of possible effect on loan availability during the transition period.

(e) PEER REVIEW OF STUDY DESIGN AND DRAFT REPORT.

(1) The Secretary shall publish the design of the study and solicit comments for a period of not less than 120 days. Following receipt of comments, the Secretary shall reconvene the entities identified in subsection (a) to review the comments and consider changes in the design developed by the Secretary. Following finalization of the design, the study design shall be posted on the Department of Education's Internet home page.
(2) Following completion of the initial study, the Secretary shall--
(A) convene the entities identified in subsection (a) to review the results of the study;
(B) consider the comments received and make appropriate modifications to the study; and

(C) subject the study to peer review with other knowledgeable entities.

(f) COMMUNITY COMMENT ON STUDY RESULTS. The Secretary shall solicit the comments of students, institutions of higher education, and other entities on the study and include a summary of such comments with the study when published.

(g) PUBLICATION OF STUDY.--Not later than December 31, 2001, the Secretary shall submit the study to the House Education and Workforce Committee and the Senate Labor and Human Resources Committee the study of market mechanisms required under this section. Such study shall include a summary of the comments received as a result of peer review of study and comments of representatives of each of the entities identified in subsection (a).

RATIONALE: Given the intense debate around the issue of interest rates, it makes sense to explore a method to enable the market to set the appropriate student loan interest rate.

BoB,

Dan Bernal forwarded to me a DPC request for state-by-state #s on how many students have benefitted or could benefit from direct [redacted] lending. The attached table answers both questions

① have benefitted: Add columns 1 & 3 (DL only and DL+FFEL)

② COULD benefit: Column 2 (FFEL only)

↳ Specifically, these students could benefit by consolidating their loans through the Direct Loan program which provides more flexible repayment option — including Income Contingent Repayment.

If you have any questions — feel free to call me @ 401-8192

Estimated number of students with outstanding loan balances of $25 or more on July 7, 1997, by state of last school attended and loan program.

State of last school attended	Students with Direct Loans Only (1)	Student with FFEL Loans only (2)	Students with both Direct and FFEL loans (3)
Alaska	138	12,209	213
Alabama	27,346	166,382	27,414
Arkansas	3,257	113,455	3,596
Arizona	21,103	361,739	18,525
California	103,141	1,514,946	86,041
Colorado	23,953	248,148	20,832
Connecticut	6,989	222,838	5,428
DC	5,293	106,126	6,311
Delaware	6,107	45,395	4,071
Florida	32,096	679,642	25,310
Georgia	39,492	278,751	39,017
Hawaii	203	28,237	457
Iowa	38,406	186,400	37,863
Idaho	13,503	46,278	12,214
Illinois	60,934	661,593	57,542
Indiana	20,492	324,147	20,221
Kansas	10,382	175,882	11,739
Kentucky	20,764	181,717	15,810
Louisiana	5,836	335,275	5,225
Massachusetts	47,228	465,985	49,806
Maryland	16,692	199,021	16,625
Maine	2,307	75,456	2,850
Michigan	69,009	383,452	62,970
Minnesota	20,492	325,572	22,257
Missouri	24,157	340,635	25,582
Mississippi	2,375	141,818	3,257
Montana	4,953	55,167	3,054
North Carolina	20,900	236,952	17,914
North Dakota	1,018	67,041	475
Nebraska	6,853	106,398	7,057
New Hampshire	1,289	96,151	1,493
New Jersey	46,549	294,494	29,314
New Mexico	6,378	81,155	6,107
Nevada	3,936	56,524	3,189
New York	91,130	1,359,081	89,569
Ohio	61,681	696,674	55,370
Oklahoma	7,803	223,517	6,446
Oregon	18,253	137,951	21,578
Pennsylvania	16,760	1,080,466	11,807
Puerto Rico	32,231	109,723	13,707
Rhode Island	8,753	96,626	9,364
South Carolina	11,468	149,147	8,346
South Dakota	882	71,656	271
Tennessee	13,639	269,116	14,453
Texas	23,682	966,943	13,096
Utah	1,357	125,397	679
Virginia	40,849	269,930	44,106
Vermont	6,853	46,685	7,057
Washington	27,549	230,981	19,678
Wisconsin	17,167	262,466	23,410
West Virginia	17,439	73,216	17,100
Wyoming	0	32,633	195

Question?
Call Charles Masten
202 260 4998
or Dan Madzelan
202 708 9105

Note: Data obtained from PPI's NSLDS Research Sample.
Estimates obtained from sample data.

UNITED STATES DEPARTMENT OF EDUCATION

Office of the Deputy Secretary
600 Independence Avenue, SW
Washington, DC 20202

Telephone Number: (202) ____________ Fax Number: (202) 401-9027

FAX COVER SHEET

TO: Bob Shireman

ORGANIZATION:

PHONE: FAX:

FROM: Kristi Kimball

COMMENTS:

DPC Request.

TOTAL PAGES (Including Cover): 3

FAX TRANSMISSION

U.S. DEPARTMENT OF EDUCATION
600 Independence Avenue, SW
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Office: (202) 401-3053
Fax: (202) 401-0596

TO: Bob Shireman **DATE:** 9/16/98

FAX: 456-2223 **PAGES:** , including cover.

FROM: Dan Bernal
Office of the Secretary

SUBJECT: Gorton Analysis and State-by-States

COMMENTS:

9/22/97 is the most recent analysis on budget service has.

[illegible]

9/22/97

EXPLANATION OF FORMULA RUNS ON THE GORTON AMENDMENT

Title I Block Grant

NCES has run projections comparing, at the county level, Title I allocations under current law with allocations under the Gorton amendment.

-- Although the Gorton amendment would require the Department to make Title I allocations directly to LEAs, the Department makes allocations under current law only to the county level. We do not have LEA data for current law allocations against which the Gorton allocations could be compared. In addition, we don't have very current LEA-level data on children living in poverty and the other children counted in the Title I formula (which would be the data base used to compute allocations under Gorton). Thus, we can produce estimates on the impact of the amendment, at this time, only on a county basis.

-- The runs therefore do not demonstrate the impact of the amendment on allocations within counties. They do, however, provide an indication of the impact across counties.

The runs use the "blended" Census child poverty data as the basis for projected allocations under both current law and the Gorton amendment.

-- For FY 1997, the Department allocated Title I funds using a blend of 1990 Census data and data updated to 1993. The National Academy of Sciences is currently still conducting its review of the updates. We do not know what the Academy will conclude and which data base we will use for 1998. For the simulations, we assumed continued use of the blended data.

The Gorton amendment would consolidate the Title I Capital Expenses, Even Start, Migrant, and Neglected and Delinquent programs into a block grant.

-- Currently some of these funds flow to LEAs, on a discretionary or competitive basis. Other funds do not. (N&D funds go to institutions; Migrant funds are often used for State-level activities.) Because the Department does not make direct allocations under any of these programs, we don't have current data on how the funds flow within States. The formula runs thus do not include funds for these programs.

The Broader Block Grant

The amendment would consolidate a large number of programs into a block grant, with allocations based on enrollments weighted by State per-capita income.

-- The amendment would require the Secretary to divide the States into quintiles and then to assign a different weight to each quintile. However, the amendment also defines 59 different entities as States (the 50 States plus DC, Puerto Rico, the 4 territories, and the 3 "Freely Associated States") and the number 59 isn't evenly divisible by 5. It is not certain how we would deal with this problem in actual implementation of the amendment but, for the simulations, we have applied an averaged weight to the States that fall within two quintiles.

The formula runs compare <u>State-level</u> allocations under the Gorton amendment with the State formula allocations States would otherwise receive under current law.

-- While the amendment would require the Department to make allocations directly to LEAs, we don't have comparable sub-State data for most of the current programs. (The only program under which the Department makes direct allocations to LEAs is Indian Education, which would account for only about 1 percent of the block grant money. Under the other formula programs, the State determines sub-State allocations, and some State discretion is generally permitted.) Thus the only meaningful comparisons we can do at this time are at the State level.

These State-level runs do not display the impact of the amendment across LEAs; nor do they show the effect of eliminating activities that, under current law, are not carried out by LEAs. For example, 20 percent of Safe and Drug-Free Schools funds flow from Governors' offices to boys and girls clubs, police departments, community groups, and other entities to operate programs for school dropouts and other activities that complement LEA programs. Sixteen percent of Eisenhower State Grants flow to institutions of higher education. None of these activities would continue under the amendment.

-- The "hold-harmless" language in the amendment would require each State to receive at least the amount it "would have received" in the absence of the amendment. Trying to be consistent with this language, we have used as the comparison the amounts the States would receive, in the absence of Gorton, under the 10 formula programs that would be folded into the block grant (that is, all the money under 8 programs and portions of Vocational Rehabilitation Title I and Vocational Education). Because we haven't included, in the current programs aggregation, amounts from the discretionary programs, the total allocation under the Gorton amendment is higher than the comparable allocations under current law.

The "would have received" language in the amendment is probably amenable to different interpretations. One might include the funding that would have gone into continuation grants under the competitive programs or that would have gone to grantees designated in authorizing legislation (e.g., the funds for Reading is Fundamental, the Kennedy Center, and Very Special Arts could be considered money that DC would have received). But, for now, we have shown only the formula grant money.

A Note on the Hold-Harmless Requirement

Subsection (h) of the amendment reads, "Notwithstanding any other provision of this section, the total amount awarded to local educational agencies in each state under this section shall not be less than the net dollars that state would have received absent the provisions of this section." This language could be read to provide for a single hold-harmless, covering both Title I and the broader block grant, not separate hold-harmlesses for the two programs. This interpretation would probably result in major shifts in funding between school districts but not, in the net, between States. Because the application of a single hold-harmless would have been very difficult to program, the simulations did not assume this interpretation.

A Note on BIA Schools

The Gorton amendment would eliminate all set-asides, in the consolidated programs, for the BIA schools. However, the ESEA includes BIA schools within the definition of LEAs "but only to the extent that such inclusion makes such school eligible for programs for which specific eligibility is not provided to such school in another provision of law...." In other words, if there is no BIA set-aside, the BIA schools would appear to be treated as LEAs. We have thus obtained school-level enrollment data from the BIA and included it in the simulations.

- For the Title I run, this inclusion assumes that all students in BIA schools come from poor families, which is probably close but not one hundred percent accurate. The simulations include specific amounts for each BIA school, in addition to the counties.

- For the broad block grant, the amounts that would flow to BIA schools are included in the State totals.

9/18/97

IMPACT OF THE GORTON AMENDMENT

Title I Block Grant

Changes in State Allocations

- **Table 1** -- Without the State-level hold-harmless requirement, the amendment would result in a major shift in Title I funds across States; they would lose or gain as much as 38 percent of their allocations (or 57 percent in the case of Puerto Rico), compared to what they would receive under current law.

  -- The hold-harmless requirement, however, would prevent any shifts across States.

Shifts Across Counties

- **Table 2** -- The table shows the estimated Title I allocations under the Gorton amendment, compared to current law, for the 100 counties with the largest numbers of children living in poverty. These counties include about 45 percent of all poor children nationally.

  -- After the application of the State hold-harmless, the pattern of gains and losses across these counties is mixed, with most of them having a small impact compared to current law. For example, among the 25 largest counties (not including Puerto Rico, which counts as a single county in the programming), one county would gain almost 10 percent, two would lose more than 6 percent, one would lose 2.5 percent, and all the others would gain or lose no more than 1.5 percent. The same pattern of mixed but mostly minor impacts continues for the other 75 counties on the table, and small losses are about as frequent as small gains.

- **Table 3** -- This table shows the estimated allocations for the 100 districts with the highest percentages of children in poverty. (These are generally small, rural counties.)

  -- Here the pattern is much clearer than with the large counties: virtually all of these counties would lose under Gorton, and in some cases the losses are quite signficant. The average loss for the 95 counties that would lose funds is about 10 percent, and 20 counties would lose at least 15 percent.

- **Table 4** -- The table shows the estimated allocations for the 25 counties with the lowest percentage of children in poverty. They are a mix of suburban and rural counties.

  -- Virtually all of these counties gain signficant funding under Gorton. The increases are mainly in the range of 11-20 percent.

To sum up, the Gorton amendment appears to move significant amounts of money out of the poorest counties and into wealthier ones. For the largest counties, which include the bulk of the Nation's children living in poverty, the impact is mixed.

Additional analysis is needed to understand some of the reasons for these patterns, particularly the mixed results for the big counties. It appears that different formula factors are producing different effects and, particularly for the largest districts, cancelling each other out. On the one hand, the loss of a Concentration Grants mechanism under Gorton would move money out of poor urban and rural counties. On the other hand, the Gorton amendment would also eliminate the LEA-level hold-harmless requirements in current law, which may have the effect, at least in some States, of moving money out of low-poverty counties and into high-poverty ones. The actual impact may depend on the distribution of poverty, by county, in each State

In the rural States that have BIA schools, the projected losses to high-poverty districts are accentuated by our inclusion of child-counts for BIA schools in the runs. The simulations allocate money to the BIA schools but don't give the States additional money to take care of those schools. In actual operation, under the amendment, the money folded into the program from the Title I categorical programs (Even State, Migrant, N&D) would make up for some of this shortfall.

Broader Block Grant

- **Table 5 -- Shows the impact of the Gorton number for an allocation of $4.3 billion (the estimated amount of the State hold-harmless).**

  -- **If there were no hold-harmless, States would gain or lose as much as 46 percent of their allocations, or even a higher percentage for DC and the Territories. The hold-harmless requirement prevents these shifts.**

- **Table 6—** Compares the allocation of the entire amount that would be available under the block grant ($5.4 billion) with the State hold-harmless amounts (total of $4.3 billion)..

  -- Most States would receive increases compared to their current formula allocations. The increases range from 6 percent (Montana) to 70 percent (Utah).

  -- The 8 "small States" would receive no increase. This is because their current allocations are increased by statutory small-State minimums. The Gorton amendment does not have a minimum State funding level (except for the hold-harmless).

-- New York, Ohio, and Puerto Rico would also not receive increases. More investigation is needed into the reasons, but it probably goes something like this. Allocations under most of the current programs are based partially on Title I shares. The Title I formula is based on counts of children in poverty weighted by State per-pupil expenditures, while the Gorton formula would be-based on total enrollments weighted by State per-capita income. New York and Ohio may have a much higher share of the Nation's poor kids than they do of the overall enrollment. They also have high per-pupil expenditures. Puerto Rico doesn't have a high SPPE, but its share of total poor children is considerably higher than its share of overall enrollment. Thus the shift in formulas hurts these three States. Without the State hold-harmless requirement, they would lose funds, as would all the small States.

-- The Freely Associated States (the Marshall Islands, Micronesia, and Palau) would receive a windfall. Their allocations would be 9 times as large as what they would receive under current law ($5.4 million vs. $602,000).

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON STATE ALLOCATIONS FOR ESEA TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES FY 1998 SENATE LEVEL

		FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (incl. State hold harmless)	
			Change from Current Law			
States	FY 1998 Senate Under Current Law	Total Allocation	Dollars	Percent	Total Allocation	Change from Current Law
TOTALS	$7,240,593,446	$7,240,593,446	0	0.0%	$7,240,593,446	0
ALABAMA	125,663,928	134,658,551	8,994,623	7.2%	125,663,928	0
ALASKA	17,166,020	11,893,661	(5,272,360)	-30.7%	17,166,020	0
ARIZONA	112,795,257	141,809,426	29,014,169	25.7%	112,795,257	0
ARKANSAS	75,021,575	80,150,282	5,128,707	6.8%	75,021,575	0
CALIFORNIA	819,924,251	907,996,769	88,072,518	10.7%	819,924,251	0
COLORADO	69,593,359	72,815,919	3,222,560	4.6%	69,593,359	0
CONNECTICUT	66,990,499	53,540,923	(13,449,576)	-20.1%	66,990,499	0
DELAWARE	17,972,096	11,812,192	(6,159,904)	-34.3%	17,972,096	0
DISTRICT OF COLUMBIA	21,484,544	15,970,019	(5,514,524)	-25.7%	21,484,544	0
FLORIDA	328,183,389	329,706,512	1,523,123	0.5%	328,183,389	0
GEORGIA	191,839,003	207,715,939	15,876,936	8.3%	191,839,003	0
HAWAII	20,118,950	18,477,927	(1,641,024)	-8.2%	20,118,950	0
IDAHO	21,873,535	25,106,964	3,233,429	14.8%	21,873,535	0
ILLINOIS	324,518,212	290,324,220	(34,193,992)	-10.5%	324,518,212	0
INDIANA	111,728,616	110,631,228	(1,097,389)	-1.0%	111,728,616	0
IOWA	51,573,990	52,644,036	1,070,046	2.1%	51,573,990	0
KANSAS	53,933,121	53,413,949	(519,172)	-1.0%	53,933,121	0
KENTUCKY	127,069,859	126,576,293	(493,566)	-0.4%	127,069,859	0
LOUISIANA	191,235,514	201,086,168	9,850,654	5.2%	191,235,514	0
MAINE	28,077,975	25,688,986	(2,388,989)	-8.5%	28,077,975	0
MARYLAND	97,378,628	78,473,206	(18,905,422)	-19.4%	97,378,628	0
MASSACHUSETTS	142,944,821	112,162,981	(30,781,840)	-21.5%	142,944,821	0
MICHIGAN	321,682,776	258,976,479	(62,706,297)	-19.5%	321,682,776	0
MINNESOTA	86,155,679	85,679,128	(476,551)	-0.6%	86,155,679	0
MISSISSIPPI	124,641,028	128,000,890	3,359,862	2.7%	124,641,028	0
MISSOURI	124,454,955	132,915,419	8,460,465	6.8%	124,454,955	0
MONTANA	25,301,189	24,320,903	(980,286)	-3.9%	25,301,189	0
NEBRASKA	31,727,440	30,364,982	(1,362,459)	-4.3%	31,727,440	0
NEVADA	21,735,828	24,888,246	3,152,419	14.5%	21,735,828	0
NEW HAMPSHIRE	16,952,250	13,217,707	(3,734,544)	-22.0%	16,952,250	0
NEW JERSEY	157,994,698	125,997,206	(31,997,492)	-20.3%	157,994,698	0
NEW MEXICO	62,348,619	80,426,247	18,077,628	29.0%	62,348,619	0
NEW YORK	665,599,506	524,258,323	(141,341,183)	-21.2%	665,599,506	0
NORTH CAROLINA	136,974,705	154,623,460	17,648,755	12.9%	136,974,705	0

Table 1

IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON STATE ALLOCATIONS FOR ESEA TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES FY 1998 SENATE LEVEL

States	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (incl. State hold harmless)	
		Total Allocation	Change from Current Law: Dollars	Change from Current Law: Percent	Total Allocation	Change from Current Law
NORTH DAKOTA	17,798,687	17,486,360	(312,327)	-1.8%	17,798,687	0
OHIO	298,041,822	274,189,062	(23,852,760)	-8.0%	298,041,822	0
OKLAHOMA	86,322,547	99,608,766	13,286,219	15.4%	86,322,547	0
OREGON	67,444,009	60,636,752	(6,807,257)	-10.1%	67,444,009	0
PENNSYLVANIA	323,156,763	258,618,311	(64,538,452)	-20.0%	323,156,763	0
PUERTO RICO	262,416,170	412,466,986	150,050,816	57.2%	262,416,170	0
RHODE ISLAND	24,168,153	19,441,603	(4,726,550)	-19.6%	24,168,153	0
SOUTH CAROLINA	93,266,479	104,402,928	11,136,449	11.9%	93,266,479	0
SOUTH DAKOTA	19,284,088	26,629,910	7,345,822	38.1%	19,284,088	0
TENNESSEE	128,021,314	148,409,105	20,387,791	15.9%	128,021,314	0
TEXAS	627,510,448	674,986,710	47,476,262	7.6%	627,510,448	0
UTAH	33,035,000	38,716,599	5,681,600	17.2%	33,035,000	0
VERMONT	16,531,256	10,684,845	(5,846,411)	-35.4%	16,531,256	0
VIRGINIA	108,419,586	117,232,375	8,812,788	8.1%	108,419,586	0
WASHINGTON	107,669,719	105,473,027	(2,196,692)	-2.0%	107,669,719	0
WEST VIRGINIA	72,900,819	62,409,975	(10,490,844)	-14.4%	72,900,819	0
WISCONSIN	124,283,517	104,601,828	(19,681,689)	-15.8%	124,283,517	0
WYOMING	15,889,489	10,041,905	(5,847,584)	-36.8%	15,889,489	0
AMERICAN SAMOA	5,228,391	5,988,299	759,907	14.5%	5,228,391	0
GUAM	4,890,847	4,130,671	(760,176)	-15.5%	4,890,847	0
NORTHERN MARIANAS	2,775,348	2,121,850	(653,498)	-23.5%	2,775,348	0
PALAU	0	2,151,942	2,151,942	N/A	0	0
MARSHALL ISLANDS	0	8,030,148	8,030,148	N/A	0	0
MICRONESIA	0	18,836,828	18,836,828	N/A	0	0
VIRGIN ISLANDS	8,884,181	6,972,525	(1,911,656)	-21.5%	8,884,181	0

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE LARGEST NUMBER OF POOR CHILDREN FY 1998 SENATE LEVEL

STATE	COUNTY	Total No. of Poor Children	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent	FY 1998 w/Gorton (Incl. State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent
CA	LOS ANGELES	483,387	317,421,995	354,781,916	37,359,921	11.8%	320,369,308	2,947,313	0.9%
IL	COOK	240,006	197,011,209	176,152,417	(20,858,792)	-10.6%	196,899,410	(111,799)	-0.1%
NY	KINGS	199,253	187,674,033	146,241,750	(41,432,283)	-22.1%	185,668,844	(2,005,189)	-1.1%
TX	HARRIS	143,819	96,827,262	105,555,963	8,728,701	9.0%	98,131,517	1,304,255	1.3%
MI	WAYNE	133,095	122,896,055	97,685,083	(25,210,972)	-20.5%	121,337,693	(1,558,362)	-1.3%
NY	BRONX	116,820	109,600,488	85,745,917	(23,854,571)	-21.8%	108,863,203	(737,285)	-0.7%
FL	DADE	105,689	77,784,340	77,497,052	(287,288)	-0.4%	77,139,044	(645,296)	-0.8%
PA	PHILADELPHIA	97,525	91,719,608	71,578,479	(20,141,129)	-22.0%	89,440,959	(2,278,649)	-2.5%
CA	SAN DIEGO	91,563	60,208,375	67,202,669	6,994,294	11.6%	60,684,245	475,870	0.8%
AZ	MARICOPA	82,414	51,534,602	60,487,760	8,953,158	17.4%	48,111,981	(3,422,621)	-6.6%
TX	DALLAS	80,349	54,270,021	58,972,153	4,702,132	8.7%	54,824,253	554,232	1.0%
NY	NEW YORK	75,689	71,020,286	55,551,946	(15,468,340)	-21.8%	70,528,871	(491,415)	-0.7%
TX	BEXAR	75,287	51,129,367	55,256,898	4,127,531	8.1%	51,370,316	240,949	0.5%
CA	SAN BERNARDINO	67,864	44,463,450	49,588,602	5,125,152	11.5%	44,778,680	315,230	0.7%
CA	ORANGE	63,769	41,668,871	46,803,261	5,134,390	12.3%	42,263,508	594,637	1.4%
OH	CUYAHOGA	62,800	49,358,974	46,092,063	(3,266,911)	-6.6%	50,101,789	742,815	1.5%
NY	QUEENS	61,413	57,419,393	45,074,075	(12,345,318)	-21.5%	57,226,143	(193,250)	-0.3%
TX	HIDALGO	60,559	41,359,180	44,447,281	3,088,101	7.5%	41,321,011	(38,169)	-0.1%
TX	EL PASO	56,976	38,486,524	41,817,538	3,331,014	8.7%	38,876,235	389,711	1.0%
CA	FRESNO	56,769	37,403,250	41,665,611	4,262,361	11.4%	37,624,192	220,942	0.6%
WI	MILWAUKEE	52,702	49,139,038	38,680,636	(10,458,402)	-21.3%	45,958,714	(3,180,324)	-6.5%
LA	ORLEANS	49,351	31,332,762	36,221,169	4,888,407	15.6%	34,446,794	3,114,032	9.9%
TN	SHELBY	48,775	29,484,511	34,330,514	4,846,003	16.4%	29,614,339	129,828	0.4%
CA	RIVERSIDE	46,549	30,525,102	34,164,641	3,639,539	11.9%	30,850,790	325,688	1.1%
MD	BALTIMORE CITY	44,631	41,707,332	32,756,925	(8,950,407)	-21.5%	40,648,580	(1,058,752)	-2.5%
CA	SACRAMENTO	43,951	28,729,821	32,265,178	3,535,357	12.3%	29,135,569	405,748	1.4%
PA	ALLEGHENY	38,158	35,810,336	28,006,066	(7,804,270)	-21.8%	34,896,007	(815,329)	-2.3%
TX	TARRANT	37,704	25,489,972	27,672,853	2,182,881	8.6%	25,726,439	236,467	0.9%
GA	FULTON	37,044	25,463,936	27,188,446	1,724,510	6.8%	25,110,275	(353,661)	-1.4%
TX	CAMERON	36,384	24,954,889	26,704,039	1,749,150	7.0%	24,825,768	(129,121)	-0.5%
NJ	ESSEX	35,719	33,518,307	26,215,962	(7,302,345)	-21.8%	32,873,610	(644,697)	-1.9%
CA	ALAMEDA	33,739	22,095,518	24,762,741	2,667,223	12.1%	22,360,841	265,323	1.2%
CA	KERN	33,632	22,235,712	24,684,208	2,448,496	11.0%	22,289,926	54,214	0.2%
FL	BROWARD	32,550	23,875,680	23,890,074	14,394	0.1%	23,779,711	(95,969)	-0.4%
OH	HAMILTON	32,405	25,716,068	23,783,652	(1,932,416)	-7.5%	25,852,683	136,615	0.5%
NY	ERIE	32,295	30,355,331	23,702,917	(6,652,414)	-21.9%	30,093,275	(262,056)	-0.9%
AZ	PIMA	32,061	19,921,187	23,531,173	3,609,986	18.1%	18,716,701	(1,204,486)	-6.0%
OH	FRANKLIN	31,349	24,846,985	23,008,600	(1,838,385)	-7.4%	25,010,207	163,222	0.7%
FL	HILLSBOROUGH	30,622	22,421,781	22,475,019	53,238	0.2%	22,371,192	(50,589)	-0.2%
MO	ST LOUIS CITY	29,922	20,999,814	21,981,254	981,440	4.6%	20,563,354	(436,460)	-2.1%
MA	SUFFOLK	28,834	27,169,714	21,162,716	(6,006,998)	-22.1%	26,970,580	(199,134)	-0.7%
CA	SANTA CLARA	28,658	18,615,914	21,033,541	2,417,627	13.0%	18,993,361	377,447	2.0%
CA	TULARE	28,370	18,799,960	20,822,163	2,022,203	10.8%	18,802,486	2,526	0.0%
IN	MARION	27,692	21,264,755	20,324,545	(940,210)	-4.4%	20,526,151	(738,604)	-3.5%
MN	HENNEPIN	27,583	21,453,723	20,244,544	(1,209,179)	-5.6%	20,357,146	(1,096,577)	-5.1%

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE LARGEST NUMBER OF POOR CHILDREN FY 1998 SENATE LEVEL

STATE	COUNTY	Total No. of Poor Children	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law Dollars	Percent	FY 1998 w/Gorton (incl. State hold harmless) Total Allocation	Change from Current Law Dollars	Percent
WA	KING	27,293	21,167,407	20,031,699	(1,135,708)	-5.4%	20,448,900	(718,507)	-3.4%
AL	JEFFERSON	25,822	17,163,033	18,952,058	1,789,025	10.4%	17,686,141	523,108	3.0%
MO	JACKSON	25,768	17,817,259	18,912,425	1,095,166	6.1%	17,708,593	(108,666)	-0.6%
CA	SAN JOAQUIN	25,727	16,940,894	18,882,333	1,941,439	11.5%	17,050,813	109,919	0.6%
	MICRONESIA	25,665	0	18,836,828	18,836,828	100.0%	0	0	0.0%
KY	JEFFERSON	25,514	17,950,271	18,726,002	775,731	4.3%	18,799,021	848,750	4.7%
FL	DUVAL	24,959	18,208,428	18,318,659	110,233	0.6%	18,234,034	25,608	0.1%
OK	OKLAHOMA	24,748	15,564,497	18,163,796	2,599,299	16.7%	15,741,036	176,539	1.1%
AL	MOBILE	24,369	16,299,318	17,885,629	1,586,311	9.7%	16,690,944	391,626	2.4%
CT	HARTFORD	24,316	22,919,081	17,848,197	(5,070,884)	-22.1%	22,331,697	(587,384)	-2.6%
NV	CLARK	23,865	15,971,645	17,530,397	1,558,752	9.8%	15,309,945	(661,700)	-4.1%
NJ	HUDSON	23,664	22,211,586	17,368,194	(4,843,392)	-21.8%	21,778,916	(432,670)	-1.9%
MA	MIDDLESEX	22,675	21,339,008	16,642,318	(4,696,690)	-22.0%	21,209,610	(129,398)	-0.6%
MI	GENESEE	22,242	20,638,087	16,324,517	(4,313,570)	-20.9%	20,277,193	(360,894)	-1.7%
FL	PALM BEACH	21,885	15,987,724	16,062,497	74,773	0.5%	15,988,294	570	0.0%
DC	WASHINGTON	21,759	21,484,544	15,970,019	(5,514,525)	-25.7%	21,484,544	0	0.0%
FL	ORANGE	21,752	15,814,289	15,964,882	150,593	1.0%	15,891,130	76,841	0.5%
MA	ESSEX	21,690	20,426,810	15,919,377	(4,507,433)	-22.1%	20,288,266	(138,544)	-0.7%
NM	BERNALILLO	21,300	13,331,102	15,633,136	2,302,034	17.3%	12,119,233	(1,211,869)	-9.1%
NY	MONROE	21,044	19,781,575	15,445,245	(4,336,330)	-21.9%	19,609,317	(172,258)	-0.9%
CO	DENVER	20,995	14,936,781	15,409,281	472,500	3.2%	14,727,324	(209,457)	-1.4%
RI	PROVIDENCE	20,921	19,735,352	15,354,969	(4,380,383)	-22.2%	19,087,996	(647,356)	-3.3%
IN	LAKE	20,690	16,674,606	15,185,427	(1,489,179)	-8.9%	15,336,056	(1,338,550)	-8.0%
CT	NEW HAVEN	20,561	19,382,547	15,090,747	(4,291,800)	-22.1%	18,881,570	(500,977)	-2.6%
OH	MONTGOMERY	20,240	16,248,383	14,855,149	(1,393,234)	-8.6%	16,147,456	(100,927)	-0.6%
NY	SUFFOLK	20,119	18,731,651	14,766,341	(3,965,310)	-21.2%	18,747,379	15,728	0.1%
TX	TRAVIS	19,891	13,389,443	14,599,001	1,209,558	9.0%	13,572,157	182,714	1.4%
GA	DE KALB	19,520	13,421,251	14,326,705	905,454	6.7%	13,231,632	(189,619)	-1.4%
OK	TULSA	19,432	12,198,480	14,262,117	2,063,637	16.9%	12,359,779	161,299	1.3%
TX	WEBB	19,211	13,055,339	14,099,915	1,044,576	8.0%	13,108,175	52,836	0.4%
FL	PINELLAS	19,189	13,743,406	14,083,768	340,362	2.5%	14,018,706	275,300	2.0%
TN	DAVIDSON	19,062	11,987,804	13,990,556	2,002,752	16.7%	12,068,595	80,791	0.7%
MI	OAKLAND	18,953	17,158,411	13,910,555	(3,247,856)	-18.9%	17,278,735	120,324	0.7%
TX	NUECES	18,880	12,853,223	13,856,977	1,003,754	7.8%	12,882,325	29,102	0.2%
UT	SALT LAKE	18,798	12,878,067	13,796,793	918,726	7.1%	11,772,136	(1,105,931)	-8.6%
OH	LUCAS	18,731	14,944,171	13,747,618	(1,196,553)	-8.0%	14,943,577	(594)	-0.0%
WA	PIERCE	18,610	14,421,460	13,658,811	(762,649)	-5.3%	13,943,283	(478,177)	-3.3%
CA	STANISLAUS	18,518	12,224,127	13,591,287	1,367,160	11.2%	12,272,980	48,853	0.4%
CA	CONTRA COSTA	18,514	12,208,180	13,588,351	1,380,171	11.3%	12,270,329	62,149	0.5%
NJ	CAMDEN	18,281	17,159,125	13,417,341	(3,741,784)	-21.8%	16,824,728	(334,397)	-1.9%
MA	WORCESTER	18,102	17,038,379	13,285,964	(3,752,415)	-22.0%	16,932,144	(106,235)	-0.6%
MA	HAMPDEN	18,069	17,017,625	13,261,744	(3,755,881)	-22.1%	16,901,276	(116,349)	-0.7%
OH	SUMMIT	18,054	14,242,785	13,250,734	(992,051)	-7.0%	14,403,467	160,682	1.1%
LA	JEFFERSON	17,982	11,989,476	13,197,890	1,208,414	10.1%	12,551,362	561,886	4.7%
LA	EAST BATON ROUGE	17,840	12,285,341	13,093,669	808,328	6.6%	12,452,246	166,905	1.4%

09/18/97

IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON
ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE LARGEST NUMBER OF POOR CHILDREN
FY 1998 SENATE LEVEL

				FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (incl. State hold harmless)		
					Change from Current Law			Change from Current Law	
STATE	COUNTY	Total No. of Poor Children	FY 1998 Senate Under Current Law	Total Allocation	Dollars	Percent	Total Allocation	Dollars	Percent
NY	WESTCHESTER	17,169	14,467,812	12,601,189	(1,866,623)	-12.9%	15,998,496	1,530,684	10.6%
LA	CADDO	17,046	11,817,150	12,510,913	693,763	5.9%	11,898,038	80,888	0.7%
CA	SAN FRANCISCO	16,819	11,248,251	12,344,306	1,096,055	9.7%	11,146,951	(101,300)	-0.9%
HI	HONOLULU	16,708	13,574,550	12,262,838	(1,311,712)	-9.7%	13,351,899	(222,651)	-1.6%
OR	MULTNOMAH	16,662	14,001,791	12,229,076	(1,772,715)	-12.7%	13,601,947	(399,844)	-2.9%
CA	VENTURA	16,247	10,689,301	11,924,487	1,235,186	11.6%	10,767,853	78,552	0.7%
CT	FAIRFIELD	15,634	14,729,113	11,474,575	(3,254,538)	-22.1%	14,357,009	(372,104)	-2.5%
FL	POLK	15,229	11,144,100	11,177,325	33,225	0.3%	11,125,690	(18,410)	-0.2%
MO	ST LOUIS	15,124	10,425,502	11,100,261	674,759	6.5%	10,393,696	(31,806)	-0.3%
MI	KENT	14,940	13,661,291	10,965,214	(2,696,077)	-19.7%	13,620,235	(41,056)	-0.3%

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE HIGHEST POVERTY RATES FY 1998 SENATE LEVEL

STATE	COUNTY	Poverty Rate	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent	FY 1998 w/Gorton (incl. State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent
LA	MADISON	68.6%	$1,299,636	$1,624,965	$325,329	25.0%	$1,545,363	$245,727	18.9%
LA	EAST CARROLL	64.2%	1,230,733	1,164,045	(66,688)	-5.4%	1,107,021	(123,712)	-10.1%
LA	HOLMES	62.7%	2,647,904	2,439,650	(208,254)	-7.9%	2,375,612	(272,292)	-10.3%
TX	STARR	61.8%	5,921,793	6,331,787	409,994	6.9%	5,886,431	(35,362)	-0.6%
MS	TUNICA	59.8%	1,053,385	982,759	(70,626)	-6.7%	956,963	(96,422)	-9.2%
SD	SHANNON	58.6%	1,375,947	1,575,791	199,844	14.5%	1,141,111	(234,836)	-17.1%
KY	OWSLEY	56.2%	486,075	437,434	(48,641)	-10.0%	439,140	(46,935)	-9.7%
TX	MAVERICK	56.1%	4,615,441	4,989,392	373,951	8.1%	4,638,456	23,015	0.5%
TX	PRESIDIO	55.8%	678,569	724,409	45,840	6.8%	673,456	(5,113)	-0.8%
MS	ISSAQUENA	55.8%	196,757	160,001	(36,756)	-18.7%	155,601	(40,956)	-20.8%
MS	HUMPHREYS	54.9%	1,331,570	1,196,339	(135,231)	-10.2%	1,164,936	(166,634)	-12.5%
TX	ZAVALA	54.6%	1,289,916	1,245,513	(44,403)	-3.4%	1,157,908	(132,008)	-10.2%
MS	SHARKEY	53.7%	781,408	727,345	(54,063)	-6.9%	708,253	(73,155)	-9.4%
MS	COAHOMA	53.5%	3,107,446	2,996,718	(110,728)	-3.6%	2,918,058	(189,388)	-6.1%
AL	GREENE	53.5%	1,036,876	958,539	(78,337)	-7.6%	894,512	(142,364)	-13.7%
AL	WILCOX	53.3%	1,430,050	1,349,734	(80,316)	-5.6%	1,259,578	(170,472)	-11.9%
KY	WOLFE	52.6%	635,499	591,564	(43,935)	-6.9%	593,870	(41,629)	-6.6%
AR	LEE	52.5%	1,396,282	1,241,110	(155,172)	-11.1%	1,161,693	(234,589)	-16.8%
LA	ORLEANS	52.4%	31,332,762	36,221,169	4,888,407	15.6%	34,446,794	3,114,032	9.9%
TX	WILLACY	52.0%	1,893,138	1,939,096	45,958	2.4%	1,802,707	(90,431)	-4.8%
MS	TALLAHATCHIE	51.9%	1,374,202	1,320,376	(53,826)	-3.9%	1,285,718	(88,484)	-6.4%
AL	PERRY	51.8%	1,143,680	1,092,852	(50,828)	-4.4%	1,019,854	(123,826)	-10.8%
TX	DIMMIT	51.7%	1,136,792	1,076,705	(60,087)	-5.3%	1,000,973	(135,819)	-11.9%
AR	PHILLIPS	51.6%	2,666,546	2,670,110	3,564	0.1%	2,499,254	(167,292)	-6.3%
LA	TENSAS	51.5%	670,588	625,325	(45,263)	-6.7%	594,692	(75,896)	-11.3%
KY	MCCREARY	51.2%	1,449,717	1,355,606	(94,111)	-6.5%	1,360,892	(88,825)	-6.1%
AL	LOWNDES	50.8%	1,228,486	1,177,990	(50,496)	-4.1%	1,099,305	(129,181)	-10.5%
MS	SUNFLOWER	50.7%	2,952,631	2,865,341	(87,290)	-3.0%	2,790,129	(162,502)	-5.5%
MS	LEFLORE	50.1%	3,272,338	3,139,838	(132,500)	-4.0%	3,057,422	(214,916)	-6.6%
NY	BRONX	49.9%	109,600,489	85,745,917	(23,854,571)	-21.8%	108,863,203	(737,285)	-0.7%
MS	YAZOO	49.8%	2,227,138	2,146,070	(81,068)	-3.6%	2,089,738	(137,400)	-6.2%
WI	MENOMINEE	49.8%	723,080	488,077	(235,003)	-32.5%	579,912	(143,168)	-19.8%
NM	MCKINLEY	49.8%	5,645,998	6,600,413	954,415	16.9%	5,116,820	(529,178)	-9.4%
TX	HIDALGO	49.7%	41,359,180	44,447,281	3,088,101	7.5%	41,321,011	(38,169)	-0.1%
MS	BOLIVAR	49.5%	3,782,127	3,622,044	(160,083)	-4.2%	3,526,969	(255,158)	-6.7%
MS	QUITMAN	49.3%	917,224	872,667	(44,557)	-4.9%	849,760	(67,464)	-7.4%
MS	NOXUBEE	49.1%	1,123,311	1,065,695	(57,616)	-5.1%	1,037,722	(85,589)	-7.6%
MS	JEFFERSON	48.0%	827,884	766,244	(61,640)	-7.4%	746,131	(81,753)	-9.9%
SD	TODD	47.9%	987,876	1,029,732	41,856	4.2%	745,882	(242,194)	-24.5%
MS	WILKINSON	47.7%	789,136	715,601	(73,535)	-9.3%	696,818	(92,318)	-11.7%

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE HIGHEST POVERTY RATES FY 1998 SENATE LEVEL

STATE	COUNTY	Poverty Rate	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent	FY 1998 w/Gorton (Incl. State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent
AZ	APACHE	47.4%	6,167,441	7,007,755	840,314	13.6%	5,573,970	(593,471)	-9.6%
TX	CAMERON	47.4%	24,954,889	26,704,039	1,749,150	7.0%	24,825,768	(129,121)	-0.5%
NM	LUNA	47.3%	1,423,167	1,660,929	237,762	16.7%	1,287,597	(135,570)	-9.5%
SD	ZIEBACH	47.2%	264,536	237,800	(26,736)	-10.1%	172,203	(92,333)	-34.9%
CO	COSTILLA	47.2%	264,823	242,204	(22,619)	-8.5%	231,484	(33,339)	-12.6%
AR	CHICOT	47.0%	1,368,918	1,286,614	(82,304)	-6.0%	1,204,286	(164,632)	-12.0%
MS	CLAIBORNE	47.0%	822,013	790,464	(31,549)	-3.8%	769,716	(52,297)	-6.4%
KY	KNOX	46.9%	2,336,876	2,206,988	(129,888)	-5.6%	2,215,594	(121,282)	-5.2%
GA	QUITMAN	46.8%	143,701	153,396	9,695	6.7%	141,671	(2,030)	-1.4%
GA	RANDOLPH	46.7%	615,624	628,995	13,371	2.2%	580,917	(34,707)	-5.6%
TN	HANCOCK	46.6%	435,800	442,572	6,772	1.6%	381,773	(54,027)	-12.4%
TX	ZAPATA	46.5%	869,202	899,089	29,887	3.4%	835,850	(33,352)	-3.8%
AL	DALLAS	46.4%	3,760,253	3,655,805	(104,448)	-2.8%	3,411,613	(348,640)	-9.3%
TX	WEBB	46.3%	13,055,339	14,099,915	1,044,576	8.0%	13,108,175	52,836	0.4%
MO	PEMISCOT	46.2%	1,718,499	1,697,626	(20,873)	-1.2%	1,589,567	(128,932)	-7.5%
WV	MCDOWELL	46.1%	3,396,029	2,422,035	(973,994)	-28.7%	2,829,169	(566,860)	-16.7%
TX	DUVAL	46.0%	1,062,389	999,640	(62,749)	-5.9%	929,329	(133,060)	-12.5%
NY	KINGS	45.9%	187,674,033	146,241,750	(41,432,283)	-22.1%	185,668,844	(2,005,189)	-1.1%
AR	ST FRANCIS	45.8%	2,331,356	2,283,319	(48,037)	-2.1%	2,137,212	(194,144)	-8.3%
GA	TURNER	45.4%	679,501	684,775	5,274	0.8%	632,434	(47,067)	-6.9%
WV	CLAY	45.3%	933,818	727,345	(206,473)	-22.1%	849,608	(84,210)	-9.0%
MO	ST LOUIS CITY	45.3%	20,999,814	21,961,254	961,440	4.6%	20,563,354	(436,460)	-2.1%
ND	ROLETTE	45.2%	1,490,710	1,244,779	(245,931)	-16.5%	1,267,013	(223,697)	-15.0%
NM	MORA	45.2%	311,968	333,947	21,979	7.0%	258,885	(53,083)	-17.0%
TX	HUDSPETH	45.2%	257,595	228,992	(28,603)	-11.1%	212,886	(44,709)	-17.4%
KY	BREATHITT	45.0%	1,214,763	1,084,044	(130,719)	-10.8%	1,088,271	(126,492)	-10.4%
AL	SUMTER	44.8%	1,258,170	1,200,008	(58,162)	-4.6%	1,119,853	(138,317)	-11.0%
TX	VAL VERDE	44.8%	3,083,707	3,271,949	188,242	6.1%	3,041,812	(41,895)	-1.4%
AR	MONROE	44.7%	833,512	755,969	(77,543)	-9.3%	707,595	(125,917)	-15.1%
MS	WASHINGTON	44.5%	5,347,322	5,265,358	(81,964)	-1.5%	5,127,149	(220,173)	-4.1%
GA	WARREN	44.3%	400,600	400,003	(597)	-0.1%	400,004	(596)	-0.1%
KY	CLAY	44.3%	1,736,130	1,644,048	(92,082)	-5.3%	1,650,459	(85,671)	-4.9%
TX	OLDHAM	44.1%	332,207	254,681	(77,526)	-23.3%	236,767	(95,440)	-28.7%
GA	CLAY	44.1%	229,646	245,139	15,493	6.7%	226,402	(3,244)	-1.4%
KY	JACKSON	44.0%	891,002	848,446	(42,556)	-4.8%	851,755	(39,247)	-4.4%
SC	ALLENDALE	44.0%	848,553	806,611	(41,942)	-4.9%	720,572	(127,981)	-15.1%
AL	BULLOCK	43.8%	821,208	763,308	(57,900)	-7.1%	712,322	(108,886)	-13.3%
AL	HALE	43.8%	1,192,397	1,173,586	(18,811)	-1.6%	1,095,196	(97,201)	-8.2%
TX	BROOKS	43.8%	573,474	609,912	36,438	6.4%	567,013	(6,461)	-1.1%
GA	TERRELL	43.7%	717,129	765,510	48,381	6.7%	706,998	(10,131)	-1.4%

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IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 100 COUNTIES WITH THE HIGHEST POVERTY RATES FY 1998 SENATE LEVEL

				FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (Incl. State hold harmless)		
					Change from Current Law			Change from Current Law	
STATE	COUNTY	Poverty Rate	FY 1998 Senate Under Current Law	Total Allocation	Dollars	Percent	Total Allocation	Dollars	Percent
KY	CLINTON	43.7%	570,732	541,655	(29,077)	-5.1%	543,767	(26,965)	-4.7%
SD	DEWEY	43.6%	541,490	536,517	(4,973)	-0.9%	388,520	(152,970)	-28.2%
MS	WALTHALL	43.6%	1,065,529	1,059,090	(6,439)	-0.6%	1,031,290	(34,239)	-3.2%
WV	WEBSTER	43.5%	857,780	654,683	(203,097)	-23.7%	764,733	(93,047)	-10.8%
KY	FULTON	43.4%	546,372	429,361	(117,011)	-21.4%	431,035	(115,337)	-21.1%
GA	TALIAFERRO	43.4%	122,621	117,432	(5,189)	-4.2%	108,456	(14,165)	-11.6%
SD	JACKSON	43.3%	241,160	247,341	6,181	2.6%	179,112	(62,048)	-25.7%
NM	GUADALUPE	43.1%	295,342	303,121	7,779	2.6%	234,988	(60,354)	-20.4%
ND	SIOUX	43.0%	482,324	402,205	(80,119)	-16.6%	409,388	(72,936)	-15.1%
KY	WAYNE	42.9%	1,199,355	1,131,017	(68,338)	-5.7%	1,135,427	(63,928)	-5.3%
TX	KARNES	42.8%	941,394	860,923	(80,471)	-8.5%	800,369	(141,025)	-15.0%
KY	BELL	42.8%	2,156,156	1,923,683	(232,473)	-10.8%	1,931,184	(224,972)	-10.4%
GA	JEFFERSON	42.7%	1,190,300	1,227,898	37,598	3.2%	1,134,043	(56,257)	-4.7%
SD	BRULE	42.7%	309,021	467,526	158,505	51.3%	338,560	29,539	9.6%
SD	MELLETTE	42.6%	187,077	175,414	(11,663)	-6.2%	127,026	(60,051)	-32.1%
TX	LYNN	42.6%	470,993	451,379	(19,614)	-4.2%	419,631	(51,362)	-10.9%
TX	FRIO	42.5%	1,172,936	1,191,935	18,999	1.6%	1,108,098	(64,838)	-5.5%
KY	MAGOFFIN	42.3%	1,051,332	988,631	(62,701)	-6.0%	992,486	(58,846)	-5.6%
KY	KNOTT	42.2%	1,456,625	1,246,981	(209,644)	-14.4%	1,251,844	(204,781)	-14.1%
OK	HARMON	42.2%	227,366	237,800	10,434	4.6%	206,081	(21,285)	-9.4%

IMPACT OF CURRENT LAW V...SUS GORTON AMENDMENT ON ESEA TITLE I LEA GRANTS ALLOCATIONS, 25 COUNTIES WITH THE LOWEST POVERTY RATES FY 1998 SENATE LEVEL

STATE	COUNTY	FY 1998 Senate Under Current Law	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent	FY 1998 w/Gorton (incl. State hold harmless) Total Allocation	Change from Current Law Dollars	Change from Current Law Percent
WI	OZAUKEE	$279,978	$262,754	($17,224)	-6.2%	$312,193	$32,215	11.5%
NM	LOS ALAMOS	72,069	78,533	6,464	9.0%	60,881	(11,188)	-15.5%
CO	PITKIN	56,937	33,762	(23,175)	-40.7%	32,268	(24,669)	-43.3%
NJ	HUNTERDON	482,449	444,774	(37,675)	-7.8%	557,726	75,277	15.6%
GA	FAYETTE	313,926	397,067	83,141	26.5%	366,717	52,791	16.8%
CO	DOUGLAS	356,820	469,728	112,908	31.6%	448,940	92,120	25.8%
IL	DU PAGE	3,866,941	4,156,359	289,418	7.5%	4,645,890	778,949	20.1%
NJ	SOMERSET	1,240,356	1,143,494	(96,862)	-7.8%	1,433,889	193,533	15.6%
IL	KENDALL	266,230	281,837	15,607	5.9%	315,031	48,801	18.3%
MD	HOWARD	1,240,356	1,143,494	(96,862)	-7.8%	1,418,980	178,624	14.4%
AK	BRISTOL BAY BOROUGH	10,441	8,073	(2,368)	-22.7%	11,652	1,211	11.6%
WI	WASHINGTON	706,245	667,161	(39,084)	-5.5%	792,692	86,447	12.2%
IL	MCHENRY	1,202,487	1,292,486	89,999	7.5%	1,444,713	242,226	20.1%
WI	WAUKESHA	2,059,730	2,047,721	(12,009)	-0.6%	2,433,016	373,286	18.1%
IN	HAMILTON	687,245	813,217	125,972	18.3%	821,283	134,038	19.5%
VA	POQUOSON	58,448	72,661	14,213	24.3%	67,199	8,751	15.0%
NJ	MORRIS	2,486,286	2,307,539	(178,747)	-7.2%	2,893,548	407,262	16.4%
VA	LOUDOUN	488,839	622,390	133,551	27.3%	575,602	86,763	17.7%
MD	CARROLL	894,840	852,850	(41,990)	-4.7%	1,058,315	163,475	18.3%
IN	HENDRICKS	488,952	555,600	66,648	13.6%	561,111	72,159	14.8%
KS	JOHNSON	2,243,310	2,589,376	346,066	15.4%	2,614,544	371,234	16.5%
VA	STAFFORD	488,103	557,068	68,965	14.1%	515,191	27,088	5.5%
NE	WASHINGTON	115,017	129,175	14,158	12.3%	134,971	19,954	17.3%
NJ	SUSSEX	1,055,656	975,420	(80,236)	-7.6%	1,223,131	167,475	15.9%
VA	PRINCE WILLIAM	1,427,553	1,800,379	372,826	26.1%	1,665,038	237,485	16.6%

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Table 5

IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON STATE ALLOCATIONS FOR TEN ESEA FORMULA PROGRAMS

FY 1998 SENATE LEVEL

States	FY 1998 Senate Under Current Law (10 formula programs)	FY 1998 w/Gorton (no State hold harmless) Total Allocation	Change from Current Law: Dollars	Change from Current Law: Percent	FY 1998 w/Gorton (incl. State hold harmless) Total Allocation	Change from Current Law
TOTALS	$4,313,462,766	$4,313,462,766	0	0.0%	$4,313,462,766	0
ALABAMA	73,297,538	79,233,690	5,936,152	8.1%	73,297,538	0
ALASKA	23,911,200	12,788,613	(11,122,587)	-46.5%	23,911,200	0
ARIZONA	79,816,772	77,412,256	(2,404,516)	-3.0%	79,816,772	0
ARKANSAS	44,155,115	51,007,578	6,852,463	15.5%	44,155,115	0
CALIFORNIA	500,185,172	490,360,837	(9,824,335)	-2.0%	500,185,172	0
COLORADO	51,899,258	62,915,198	11,015,940	21.2%	51,899,258	0
CONNECTICUT	36,357,754	45,029,786	8,672,032	23.9%	36,357,754	0
DELAWARE	17,108,650	9,958,322	(7,150,328)	-41.8%	17,108,650	0
DISTRICT OF COLUMBIA	18,337,818	6,874,865	(11,462,953)	-62.5%	18,337,818	0
FLORIDA	212,648,221	206,844,348	(5,803,873)	-2.7%	212,648,221	0
GEORGIA	115,467,593	132,265,710	16,798,117	14.5%	115,467,593	0
HAWAII	18,408,534	19,152,637	744,103	4.0%	18,408,534	0
IDAHO	21,759,781	26,023,355	4,263,574	19.6%	21,759,781	0
ILLINOIS	177,653,835	173,663,619	(3,990,216)	-2.2%	177,653,835	0
INDIANA	84,204,136	98,870,416	14,666,280	17.4%	84,204,136	0
IOWA	41,509,048	50,751,650	9,242,602	22.3%	41,509,048	0
KANSAS	38,871,556	45,669,835	6,798,279	17.5%	38,871,556	0
KENTUCKY	68,170,736	68,930,600	759,864	1.1%	68,170,736	0
LOUISIANA	87,295,452	83,614,747	(3,680,705)	-4.2%	87,295,452	0
MAINE	20,762,534	19,932,535	(829,999)	-4.0%	20,762,534	0
MARYLAND	62,834,161	72,656,737	9,822,576	15.6%	62,834,161	0
MASSACHUSETTS	78,243,573	68,591,222	(9,652,351)	-12.3%	78,243,573	0
MICHIGAN	157,358,646	159,152,002	1,793,356	1.1%	157,358,646	0
MINNESOTA	66,312,037	80,344,101	14,032,064	21.2%	66,312,037	0
MISSISSIPPI	56,800,470	56,916,676	116,206	0.2%	56,800,470	0
MISSOURI	80,453,734	89,680,834	9,227,100	11.5%	80,453,734	0
MONTANA	20,546,259	17,817,292	(2,728,967)	-13.3%	20,546,259	0
NEBRASKA	24,933,558	28,064,242	3,130,684	12.6%	24,933,558	0
NEVADA	21,095,831	24,338,675	3,242,844	15.4%	21,095,831	0
NEW HAMPSHIRE	18,089,144	17,378,538	(710,606)	-3.9%	18,089,144	0
NEW JERSEY	93,570,430	109,512,535	15,942,105	17.0%	93,570,430	0
NEW MEXICO	39,437,009	37,792,883	(1,644,126)	-4.2%	39,437,009	0
NEW YORK	287,696,507	221,407,136	(66,289,371)	-23.0%	287,696,507	0
NORTH CAROLINA	107,064,411	120,519,719	13,455,308	12.6%	107,064,411	0

09/18/97

Table 5

IMPACT OF CURRENT LAW VERSUS GORTON AMENDMENT ON STATE ALLOCATIONS FOR TEN ESEA FORMULA PROGRAMS FY 1998 SENATE LEVEL

States	FY 1998 Senate Under Current Law (10 formula programs)	FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (incl. State hold harmless)	
		Total Allocation	Change from Current Law: Dollars	Change from Current Law: Percent	Total Allocation	Change from Current Law
NORTH DAKOTA	18,191,751	13,230,369	(4,961,382)	-27.3%	18,191,751	0
OHIO	170,802,015	112,275,979	(58,526,036)	-34.3%	170,802,015	0
OKLAHOMA	67,258,434	65,944,902	(1,313,532)	-2.0%	67,258,434	0
OREGON	48,444,933	53,732,005	5,287,072	10.9%	48,444,933	0
PENNSYLVANIA	168,481,340	171,691,938	3,210,598	1.9%	168,481,340	0
PUERTO RICO	105,823,535	70,839,279	(34,984,256)	-33.1%	105,823,535	0
RHODE ISLAND	19,754,095	14,477,717	(5,276,378)	-26.7%	19,754,095	0
SOUTH CAROLINA	60,863,284	68,732,495	7,869,211	12.9%	60,863,284	0
SOUTH DAKOTA	19,024,439	15,379,455	(3,644,984)	-19.2%	19,024,439	0
TENNESSEE	81,785,875	90,719,862	8,933,987	10.9%	81,785,875	0
TEXAS	337,900,783	370,808,072	32,907,289	9.7%	337,900,783	0
UTAH	36,779,459	51,116,003	14,336,544	39.0%	36,779,459	0
VERMONT	17,183,875	10,509,052	(6,674,823)	-38.8%	17,183,875	0
VIRGINIA	86,060,105	105,001,819	18,941,714	22.0%	86,060,105	0
WASHINGTON	79,291,077	92,851,077	13,560,000	17.1%	79,291,077	0
WEST VIRGINIA	34,331,754	34,223,468	(108,286)	-0.3%	34,331,754	0
WISCONSIN	79,241,727	83,185,776	3,944,049	5.0%	79,241,727	0
WYOMING	17,375,133	10,279,937	(7,095,197)	-40.8%	17,375,133	0
AMERICAN SAMOA	3,195,580	1,481,227	(1,714,354)	-53.6%	3,195,580	0
GUAM	6,733,746	3,613,073	(3,120,673)	-46.3%	6,733,746	0
NORTHERN MARIANAS	2,022,796	924,101	(1,098,695)	-54.3%	2,022,796	0
PALAU	26,914	331,068	304,154	1130.1%	26,914	0
MARSHALL ISLANDS	145,669	1,235,409	1,089,740	748.1%	145,669	0
MICRONESIA	429,600	2,897,978	2,468,378	574.6%	429,600	0
VIRGIN ISLANDS	6,058,374	2,507,516	(3,550,858)	-58.6%	6,058,374	0

Ta

FY 1998 STATE ALLOCATIONS, BROAD BLOCK GRANTS
CURRENT LAW VERSUS GORTON AMENDMENT
SENATE LEVEL

States	FY 1998 Senate Under Current Law (10 formula programs)	FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (includ. State hold harmless)		
			Change from Current Law			Change from Current Law	
		Total Allocation	Dollars	Percent	Total Allocation	Dollars	Percent
TOTALS	$4,313,462,768	$5,383,570,000	$1,070,107,234	24.8%	$5,383,570,000	$1,070,107,234	24.8%
ALABAMA	73,297,538	98,890,413	25,592,875	34.9%	96,788,165	23,490,627	32.0%
ALASKA	23,911,200	15,961,281	(7,949,919)	-33.2%	23,911,200	0	0.0%
ARIZONA	79,816,772	96,617,108	16,800,336	21.0%	94,563,187	14,746,415	18.5%
ARKANSAS	44,155,115	63,661,815	19,506,700	44.2%	62,308,469	18,153,354	41.1%
CALIFORNIA	500,185,172	612,012,213	111,827,041	22.4%	599,001,838	98,816,666	19.8%
COLORADO	51,899,258	78,523,541	26,624,283	51.3%	76,854,260	24,955,002	48.1%
CONNECTICUT	36,357,754	56,201,020	19,843,266	54.6%	55,006,279	18,648,525	51.3%
DELAWARE	17,108,650	12,428,837	(4,679,813)	-27.4%	17,108,650	0	0.0%
DISTRICT OF COLUMBIA	18,337,818	8,580,418	(9,757,400)	-53.2%	18,337,818	0	0.0%
FLORIDA	212,648,221	258,159,415	45,511,194	21.4%	252,671,370	40,023,149	18.8%
GEORGIA	115,467,593	165,078,905	49,611,312	43.0%	161,569,599	46,102,006	39.9%
HAWAII	18,408,534	23,904,127	5,495,593	29.9%	23,395,965	4,987,431	27.1%
IDAHO	21,769,781	32,479,370	10,719,589	49.3%	31,788,912	10,029,131	46.1%
ILLINOIS	177,653,835	216,747,031	39,093,196	22.0%	212,139,345	34,485,510	19.4%
INDIANA	84,204,136	123,398,725	39,194,589	46.5%	120,775,471	36,571,335	43.4%
IOWA	41,509,048	63,342,394	21,833,346	52.6%	61,995,839	20,486,791	49.4%
KANSAS	38,871,556	56,999,855	18,128,299	46.6%	55,788,132	16,916,576	43.5%
KENTUCKY	68,170,736	86,031,277	17,860,541	26.2%	84,202,394	16,031,658	23.5%
LOUISIANA	87,295,452	104,358,347	17,062,895	19.5%	102,139,860	14,844,408	17.0%
MAINE	20,762,534	24,877,506	4,114,972	19.8%	24,348,651	3,586,117	17.3%
MARYLAND	62,834,161	90,681,815	27,847,654	44.3%	88,754,068	25,919,907	41.3%
MASSACHUSETTS	78,243,573	85,607,705	7,364,132	9.4%	83,787,825	5,544,252	7.1%
MICHIGAN	157,358,646	198,635,293	41,276,647	26.2%	194,412,633	37,053,987	23.5%
MINNESOTA	66,312,037	100,276,302	33,964,265	51.2%	98,144,692	31,832,855	48.0%
MISSISSIPPI	56,800,470	71,036,873	14,236,403	25.1%	69,626,746	12,726,276	22.4%
MISSOURI	80,453,734	111,929,341	31,475,607	39.1%	109,549,907	29,096,173	36.2%
MONTANA	20,546,259	22,237,503	1,691,244	8.2%	21,764,770	1,218,511	5.9%
NEBRASKA	24,933,558	35,026,571	10,093,013	40.5%	34,281,964	9,348,406	37.5%
NEVADA	21,095,831	30,376,745	9,280,914	44.0%	29,730,986	8,635,155	40.9%
NEW HAMPSHIRE	18,089,144	21,689,900	3,600,756	19.9%	21,228,809	3,139,665	17.4%
NEW JERSEY	93,570,430	136,680,998	43,110,568	46.1%	133,775,384	40,204,954	43.0%
NEW MEXICO	39,437,009	47,168,746	7,731,737	19.6%	46,166,016	6,729,007	17.1%
NEW YORK	287,696,507	276,335,019	(11,361,488)	-3.9%	287,696,507	0	0.0%
NORTH CAROLINA	107,064,411	150,418,905	43,354,494	40.5%	147,221,246	40,156,835	37.5%
NORTH DAKOTA	18,191,751	16,512,631	(1,679,120)	-9.2%	18,191,751	0	0.0%
OHIO	170,802,015	140,130,013	(30,672,002)	-18.0%	170,802,015	0	0.0%
OKLAHOMA	67,258,434	82,304,871	15,046,437	22.4%	80,555,205	13,296,771	19.8%
OREGON	48,444,933	67,062,132	18,617,199	38.4%	65,636,501	17,191,568	35.5%

Ta

FY 1998 STATE ALLOCATIONS, BROAD BLOCK GRANTS
CURRENT LAW VERSUS GORTON AMENDMENT
SENATE LEVEL

States	FY 1998 Senate Under Current Law (10 formula programs)	FY 1998 w/Gorton (no State hold harmless)			FY 1998 w/Gorton (includ. State hold harmless)		
			Change from Current Law			Change from Current Law	
		Total Allocation	Dollars	Percent	Total Allocation	Dollars	Percent
PENNSYLVANIA	169,481,340	214,286,206	45,804,866	27.2%	209,730,833	41,249,493	24.5%
PUERTO RICO	105,823,535	88,413,471	(17,410,064)	-16.5%	105,823,535	0	0.0%
RHODE ISLAND	19,754,095	18,069,427	(1,684,668)	-8.5%	19,754,095	0	0.0%
SOUTH CAROLINA	60,863,284	85,784,025	24,920,741	40.9%	83,960,398	23,097,114	37.9%
SOUTH DAKOTA	19,024,439	19,194,874	170,435	0.9%	19,024,439	0	0.0%
TENNESSEE	81,785,875	113,226,138	31,440,263	38.4%	110,819,136	29,033,281	35.5%
TEXAS	337,900,783	462,800,150	124,899,367	37.0%	452,961,779	115,060,996	34.1%
UTAH	36,779,459	63,797,138	27,017,679	73.5%	62,440,915	25,661,456	69.8%
VERMONT	17,183,875	13,116,195	(4,067,680)	-23.7%	17,183,875	0	0.0%
VIRGINIA	86,060,105	131,051,240	44,991,135	52.3%	128,265,306	42,205,201	49.0%
WASHINGTON	79,291,077	115,886,076	36,594,999	46.2%	113,422,528	34,131,451	43.0%
WEST VIRGINIA	34,331,754	42,713,812	8,382,058	24.4%	41,805,786	7,474,032	21.8%
WISCONSIN	79,241,727	103,822,954	24,581,227	31.0%	101,615,849	22,374,122	28.2%
WYOMING	17,375,133	12,830,239	(4,544,894)	-26.2%	17,375,133	0	0.0%
AMERICAN SAMOA	3,195,580	1,848,697	(1,346,883)	-42.1%	3,195,580	0	0.0%
GUAM	6,733,746	4,509,423	(2,224,323)	-33.0%	6,733,746	0	0.0%
NORTHERN MARIANAS	2,022,796	1,153,357	(869,439)	-43.0%	2,022,796	0	0.0%
PALAU	26,914	413,202	386,288	1435.3%	404,418	377,504	1402.6%
MARSHALL ISLANDS	429,600	1,541,896	1,112,296	258.9%	1,509,118	1,079,518	251.3%
MICRONESIA	145,669	3,616,924	3,471,255	2383.0%	3,540,034	3,394,365	2330.2%
VIRGIN ISLANDS	6,058,374	3,129,594	(2,928,780)	-48.3%	6,058,374	0	0.0%

09/18/97

Lynn_Mahaffie @ ed.gov (Lynn Mahaffie)
09/14/98 01:49:10 PM

Record Type: Record

To: Maureen_McLaughlin @ ed.gov (Maureen McLaughlin) , Robert M. Shireman/OPD/EOP

cc:
Subject: Re: True or False

See below . . .

______________________________ Reply Separator ______________________________
Subject: True or False
Author: Maureen McLaughlin at WDCA01
Date: 9/14/98 1:27 PM

Can you confirm the veracity of the following:

1. A lender can make a consolidation loan only if it owns one of the loans. (Corollary: Under the 2-way bill FFELP consolidation is not available to borrowers who only have direct loans).False. The statute requires borrowers to try to obtain a consolidation loan with acceptable repayment terms from their own FFEL lender before applying for a consolidation loan from another lender (FFEL or DL). In practice, students self certify that they have tried to get a loan from their own lender which is probably not reliable. Under the 2-way consolidation bill, Direct Loan-only borrowers can consolidate into the FFEL program (without any certification that they tried to obtain a Direct consolidation loan first).
2. Lenders pay the 50 bp origination fee on consolidation loans (in addition to the annual 105 bp fee). True.
3. The House reauthorization bill VFA provisions could allow a guaranty agency to prevent borrowers from choosing their lender. False. The Department would not use the VFA provisions to restrict lender choice. However, to clarify that this is not our intention, we have supported the Senate provision that would prohibit VFAs from restricting lender choice.
4. The House bill would exempt the VFAs from public disclosure. The House bill does not have any public disclosure requirements comparable to the requirements in the Senate bill. (The way this question is worded sounds like the House is exempting VFAs from current requirements. That is not the case. The bill simply does not require any new disclosures.) The Department originally opposed the public notice provisions, but now we could live with them.

Questions:
A. Have we taken a position on the House provision to allow any lender to offer a consolidation loan? Where does this stand in conference?Yes. We support it, and think it will be adopted in conference.

Bob - I have never heard back from you on this. What are we doing? Twice Senator any answers for this Q : her letter

AED

Academy for Educational Development

FAX TRANSMITTAL FORM

Date:	
To: Nancy	Fax #: 456-6703 Phone #:
From: Diane Gilleland	Fax #: (202) 884-8410 Phone #: (202) 884-8038 E-mail: dgillela@aed.org
Number of pages (including this cover letter):	

ADDITIONAL COMMENTS

Nancy -

Here is the back up info and the issue we discussed. I know it is late in the game, but maybe we can get some relief + support. Kennedy supposedly holds the key. Thanks for any help you can give.

Diane

1255 23rd Street, NW, Washington, DC 20037

Diane Suitt Gilleland
3101 New Mexico Avenue, #245
Washington, D.C. 20061

To: Bruce S
From: [illegible]
What can be done? This woman was director of Higher Ed when Pres was gov

September 23, 1998

President William Jefferson Clinton
The White House

Dear Mr. President:

I am concerned about several of the positions taken by the administration with respect to the Higher Education Reauthorization Act. These actions appear to be based on a philosophy or an understanding that is inconsistent with what I have known from our work on higher education issues in the past. The particular item on which I am requesting some support at this late hour is in the current draft of the conference agreement on HR 6: an amendment to replace the current three month T-Bill index (for lenders only) with a more market-based, three month commercial paper index.

Throughout the consideration of the Higher Education Reauthorization Act, the student loan industry has advocated adoption of a more efficient interest rate formula. Using Commercial Paper as the index for pricing student loans (rather than the current requirement of the 91-day Treasury Bill) will bring more stability and predictability to the FFELP at this critical time when the administration has already secured an agreement to reduce lender returns another 30 basis points–which is another 25% over the off-set fees which were imposed several years ago. What began as a request for a more efficient financial instrument is now a critical need to stabilize the private loan program.

I have never known you to be an advocate or a party to unnecessarily crippling or eliminating any business or sector in favor of total control or domination by the government. The Arkansas analogy for the current situation is ADFA and Stephens; the Washington comparison I am writing about is Sallie Mae and Direct Lending. What you did then was act in the best interests of the people of Arkansas bringing significant competition into the state's bond business that had previously been "monopolized"(my characterization). ADFA took the politics out of those deals and they were put up for bid, but legislation was not enacted to place an unfair advantage for ADFA. Direct Lending resulted in much-needed competition, immprovement in services, reductions in lender profits, and reductions in lender participants–down from 11,000 to just over 5,000 now.

When you were first elected and before you left home, I asked you to appoint me to the Sallie Mae board so I could be your eyes and ears during a time that you planned to make major revisions to the nation's student loan program. I have done that and opposed both positions taken by Sallie Mae and the Administration when I thought they were in the best interest of students, taxpayers, and investors--which I always knew was also in your best interest. Any recommendation I have made to you--whether it was about saying no to a weak doctoral program at ASU or supporting the inclusion of the privatization language for Sallie Mae even after their significant political blunder in September 1996–I have made the recommendation not on my agenda but on what I know you would do or want to do if you had the time to discuss the details and what we were trying to accomplish.

There are several key factors that I believe seem to get lost when some in the Administration are taking positions with respect to the FFELP program, in general, and Sallie Mae, in particular.

1. Since your initial revisions to the student loan program, FFELP lenders pay the federal government more to participate in the student loan business than they receive in special allowance payments. Specifically, Sallie Mae received special allowance payments totaling $330 million from 1993-1997; during those same years, Sallie Mae paid the federal government $1.25 billion in fees and taxes–nearly a 4:1 ratio.

2. Also since you took the bold step of implementing Direct Lending, taxpayer costs for the private federal student loan program have fallen dramatically. Federal costs in net terms have dropped from $4.7 billion in FY 91 to approximately $3.8 billion in FY97, even as the number of student borrowers increased by 40% and the balance of the loans grew by 91% in that same period.

3. Competition from Direct Lending and the imposition of the 30 basis point off-set fee in 1994 has resulted in the following at Sallie Mae: first and most importantly, better service to students and institutions of higher education; no growth in income in five years; two proxy contests which resulted in a change in control at the board and management levels; massive cost cutting (about 40%) in overhead expenses; continued improvement in servicing productivity; and massive balance sheet restructuring through the sale (securitization, which requires the current recognition of expected future earnings which results in temporary increases in earnings and long-term reductions in balance sheet equity) of over $18 billion or 40% of the student loans it now manages; and two dramatic decreases in stock price of approximately 40 and 60% when the company is exposed to political risk associated with the Higher Education Reauthorization act every five to six years. If Dan Pierce were in on this discussion, he would say that "we are eating our seed corn."

4. The mantra often thrown at Sallie Mae is that it is making "excessive profits." Sallie Mae actually earns less than one cent on the dollar of the principal amount of student loans it manages.

5. I do not believe that you would ever advocate a total takeover of this business by the federal government–either directly or indirectly.

6. The current draft of the conference agreement also includes an additional 30 basis point cut over the 1994 30 basis point off-set fee.

7. The Administration agreed to the privatization of Sallie Mae and wants to use it as a model for future privatizations of GSE's. Exits fraught with high political risk and serious financial consequences will deter both investors and the GSE's from pursuing this option.

I am told that the conferees hope to finalize this action by tomorrow. I would have written earlier had I known of the Department of Treasury's opposition to the use of Commercial Paper. I am told that they oppose the use of this index because of future "basis point risk" for the likely spreads between the 91-day T-Bill and CP. The Treasury calculation is based only on the last two years rates rather than a long-term calculation. The Congressional Budget Office analysis illustrates that CP+2.40 equates to T-Bill + only 2.62--not today's rate of T-Bill + 3.16. CBO's five year forecast shows that CP+2.40 equates to T-Bill + only 2.72, not today's rate of T-Bill +3.16.

Given the chaotic market conditions, the CP index minimizes the risks associated with financing student loans through the more volatile T-Bill market and accesses the deeper investor base for raising private money for student loans. While this request is time sensitive and did not come to my attention until a few hours ago, I would appreciate any nod or support you can give to including the amendment to the conference committees draft to use Commercial Paper as the index and stabilize the private part of our nation's student loan program. I have factored into this request what I know to be your philosophy and interest, those of students and institutions, as well as stabilizing the FFELP program and Sallie Mae. I would appreciate any assistance you can give on the Commercial Paper amendment.

461-8223

Sincerely,

Diane

Diane Suitt Gilleland

- recd a copy, asked to get back to her w/

- conf. rept.

→ Sandy.

Sallie Mae

Pauline Abernathy
Office of the Deputy Secretary
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-0500
Phone (202) 401-1000
Fax (202) 401-9027

TO: Bob S

FAX: x 62223

PAGES (including cover page): 8

FROM: **Pauline Abernathy**

RE: ED comments (Mike, PA, MM, DF)

Mike prefers option E.

(release + announce position together)

February 24, 1998

MEMORANDUM FOR: GENE SPERLING
SECRETARY RILEY
SECRETARY RUBIN
DIRECTOR RAINES
DR. YELLEN

FROM: Bob Shireman

SUBJECT: **Options and Recommendations on Student Loan Interest Rate**

Through an NEC process over the past few months, a working group composed of staff from the NEC, OMB, CEA and the Education and Treasury Departments has have been reviewing the situation posed by the scheduled July 1 change in the formula for setting the interest rate on student loans. This memo lays out the consensus of the working group on this issue, and presents some options for publicly declaring a position.

Background

Under current law, the interest rate on student loans is scheduled to go down by roughly one full percentage point on July 1, as a result of changes made in the 1993 budget deal. Banks and Sallie Mae have been warning for the past year that the loans are not profitable at the lower rate (*partly* because it uses a longer-term instrument to set the rate). They have called this a "ticking time bomb" that will threaten student access to loans.

We have sought out a variety of views on this situation. The Congressional Research Service has analyzed lender costs and income. Sallie Mae representatives provided information prepared for them by PaineWebber and Goldman, Sachs. Wall Street analysts have provided their own perspectives. The Education Department has reviewed lender and secondary market returns on equity and other indices of profitability. In addition, we asked the Treasury Department to assist in this effort by analyzing, for the purposes of our ongoing discussions, the question of lender costs, hedging costs, appropriate rates of return, and impacts on borrowers.

Because of the consultations that Treasury did with the industry in doing its analysis, Members of Congress became aware of the effort and have requested that it be released. Pressure has been building for the Administration to state a position on the interest rate issue, and I have increasingly used the excuse that we are waiting for additional information from the work that Treasury is doing. Yesterday, [CHECK ON THIS], Rep. Roukema issued a press release *demanding* the release of the Treasury study.

The report is now ready. It is detailed, but the ~~two~~ 3 most important pieces of information that are added to our other analyses are that (1) the July 1 situation is untenable for banks over the long term, and (2) giving borrowers an *equivalent* rate (but based on a short-term instrument) is inside

(3) banks are making excess profits now

the range of adequate lender returns — but only barely.

Consensus on an Administration Opening Position: Hold Students Harmless

There is agreement in the working group that, based on all of the analyses we have reviewed, the status of negotiations, and the views of the higher education associations, we need to state a position, and the opening position that we should enunciate is clear:

Principles:
1. Maintain a critical mass of lender participation
2. Provide students with as low a rate as possible

Offer:
1. T-bill plus 2.10 or its equivalent (1.70 in-school, 2.30 in repayment)
2. We will work with lenders to reduce their costs (for example, by using a more efficient instrument, streamlining the program, and/or reducing regulatory burdens). [Option 2 in Appendix]

Consensus on Related Issues

The working group's consensus on the opening position described above *is conditioned on agreement to a number of related issues*, including a direction for the next steps in a negotiation. The agreement on the related issues is as follows:

- **Fees.** Any package we lay out should include the origination fee reductions in our FY 99 Budget (or whatever we can afford), further reducing the cost of loans for students. + GA reform?

- **Higher Education Act reauthorization.** We would work feverishly to enact an interest rate deal *as part of an HEA reauthorization bill*. However, we are under no illusions internally: that time line may not be realistic, and a smaller package may have to be broken off and passed separately or attached to another bill (~~or a delay would have to be considered)~~. a delay is not a good option. Explain why

Given Treas 20yr problem over long term; delay is a trap

- **Further negotiating strategy.** As negotiations continue and we are forced to consider a higher rate, we should come back with a ~~further rate reduction that kicks in in two years,~~ market-based approach to the student loan rate or subsidy (*i.e.* a study and/or authorization for a trial). and create an opening for an auction or other (See Appendix: Option 4). during the 2-3 year period.

- **Position on student groups' proposal.** No Administration official should say or imply *anything* negative about the higher education community's approach (see Appendix Option 3) that would keep Direct Loans at ~~the low rate on July 1, but~~ none rate and allow lenders to charge more in the guarantee program. while not saying anything critical publicly, there is no internal consensus on the merits of such an ~~proposal~~ approach.

- **Planning for July 1.** Whether there is a fix or not, there are going to be some lenders who decide not to participate in the guarantee program anymore (indeed, every year some

a somewhat higher rate for a limited period

Is this the latest school position? See my e-mail ~~today~~ of YES drop out). While we need to be careful that no one gets the impression that we are preparing for any large exodus, the Department does need to ensure that there are means available to fill any gaps in loan availability.

Options: How and When to Announce the Administration Position

The release of the Treasury report will bring with it immediate demands for "what the Administration intends to do about the problem." When and in what context should that Administration position be presented, and how should it relate to the release of the Treasury study? Regardless of how the report is released, Treasury staff will need to explain its contents carefully to avoid mis-reporting.

A. Leak both. A reporter would be provided with the study, and would be briefed on the position that the Administration is expected to present in private discussions with Capitol Hill.

Advantage: The relationship between the report and the position could be made clear to the reporter.

Disadvantage: ~~The report itself will be more newsworthy and quotable than an unnamed Administration official stating a position.~~ Could be mis-represented unfavorably!

B. Release Treasury report only. The report would be made available without fanfare but with briefings. In response to questions, we would say that we are analyzing the information and will have a position in a few days.

Advantage: ~~No connection between~~ the report ~~and a stated position~~ is clearly separate from our position. It remains proactive.

Disadvantage: Reporters and the Hill will demand a position, and will perhaps criticize us for not saying how we intend to address the "crisis." More likely that others will frame the policy conclusions unfavorably.

C. Treasury releases report, ~~Education~~ announces position. The Treasury Department would release the report in the morning. In the early afternoon, the ~~Education Department~~ Staff would announce the position that the Administration will take in negotiations.

Advantage: Demonstrates Treasury's role as analyst, Education's role as responsible for the program policy.

Disadvantage: Implies a disconnect within the Administration; reporters might try to find a rift to report.

D. Treasury releases report, Vice President announces position. The Treasury Department would release the report in the morning. In the early afternoon, the Vice President would announce the position that the Administration will take in negotiations.

Advantage: Demonstrates Administration-wide interest in the issue.

Disadvantage: Creates the impression that the Treasury analysis has not been a part of our ongoing discussions. No!?

E. Vice President opens press briefing by Treasury. Press would be invited to a briefing on the interest rate issue. The VP would describe the Administration position. Treasury would provide a briefing on the study.

Advantage: Demonstrates the Administration's commitment to the program and to students. Position would be enunciated by the Vice President, ~~not by attempting to draw a conclusion from the Treasury report.~~ (?)

Disadvantage: Could possibly lead to impression of politicization of the report.

Working group recommendation: The position should be enunciated at the same time that the report is released. Either option A (leak) or option E (VP opens briefing) would be appropriate.

APPENDIX: OPTIONS CONSIDERED BY THE WORKING GROUP

Option 1. Declare Principles

Proposal: Do not make any specific proposal when the Treasury report is released. Instead, thank Treasury for providing valuable information that will be useful in developing possible solutions, and lay out five principles for evaluating approaches:

1. Minimize costs to students.
2. Ensure that students have continued access to loans.
3. Minimize financial costs and risk to Government.
4. Eliminate unnecessary cost and risk on lenders.
5. Increase competition and streamline systems to lower student, lender and Federal budget costs and improve service delivery.

Advantages:
- Keeps us above the fray, rather than involved in messy negotiations.
- Allows education groups to use the Treasury findings to their best advantage.
- Keeps us from setting ourselves up for failure by laying out a marker that cannot be achieved.

Disadvantages:
- No simple message; allows the industry to spin the report inaccurately as demonstrating that a "crisis" is coming. ✓
- Congress will immediately call for us to present "a solution to the problem" quickly. There will then be more pressure for our proposal to move significantly toward the lender position (and less pro-student).

Option 2: Hold Students Harmless

Proposal: Set the maximum rate equivalent to the average that students are projected to be paying over the next five years. This rate -- T-bill plus 2.10 if that instrument is used -- is the lowest level of a range that Treasury has determined provides adequate returns for lenders. We would provide them with an even better return by reducing their costs in at least two ways (1) offering to use a more efficient instrument for setting the rate (such as LIBOR or commercial paper), and (2) streamlining the procedures and regulations they have to follow. This would bring lender profitability to the mid-point of the range identified by Treasury. our GA reform proposal

Advantages:
- A simple, strongly pro-student opening position.
- Leaves room for further negotiation (e.g. when negotiations move to higher rates, then we could add out-year reductions pegged to auction approaches).

Disadvantages:

- Because it is at the bottom of Treasury's range, the industry will argue that it is not a serious offer.
- Plunges us into negotiations, rather than keeping us above the fray.

Current version seems to envision split rates only in repayment

Option 3: Leave Direct Lending Alone

The college and student associations have coalesced around the following approach: the July 1 interest rate is a problem with the *guarantee* program, *not* the Direct Loan Program. ~~Therefore, schools and students in direct lending should get the full benefit of the interest rate reduction on July 1.~~ ("Don't touch direct lending."). For banks, the instrument should be changed so that it is as efficient as possible, and lenders should be encouraged to match the direct loan rate. But if they can't meet it, they can charge more. (The groups have not said how much more banks can charge; instead, they have focused on the concept of leaving direct lending alone). Some groups think this "split rate" approach could be the basis for a deal. Others think that it is mainly an effective negotiating position, because it arguably gives lenders what they want: the ability to charge more. In order to get the groups to back away from the split rate, the lenders will have to offer a larger reduction in the rate than they have so far.

Therefore scheduled unspecified rate in school for both higher than

Advantages:

- Provides students in repayment only with the ability to get the low July 1 interest rate (at least in the Direct Loan Program).
- Spurs price competition by lenders, to meet or beat the Direct Loan rate.
- ~~Avoids us having to choose a rate for the lenders.~~ We still need to pick the rates + especially consolidation

Disadvantages:

- The Administration taking this position would contribute to fears that we simply want to drive the lenders out so that direct lending can take over.
- Could put enormous pressure on the Direct Loan Program (and more volume would require more administrative funds for servicing and origination).
- The groups have already presented this idea and are not making enormous progress, so we would not be adding anything to the discussions.
- Student groups would no longer be able to speak with one voice; their constituency + schools would be divided + therefore weaker.
- D.L. would increasingly have small + riskier schools + students.

Option 4: Package Deal

This is what some of us see as ~~a reasonable deal we could realistically get~~ plausible endpoint: (1) For 1998 and 1999, set the interest rate at the mid-point of Treasury's range. (2) Order a study of other approaches to setting the subsidy/rate (such as an auction), and perhaps authorize a test or trials. (3) In 2000, the rate would automatically revert to a lower level, unless Congress acts. This forces Congress to consider the other approaches that have been developed by that time.

Advantages:

- ~~Would be seen as a reasonable offer, based on the Treasury analysis.~~ Chairman McKeon himself has been rumored to be considering "splitting the difference."
- Is approximately the interest rate reduction that was projected when the decision to change the rate was made in 1993.

- Split rates may lead to bifurcation of students group with two loan programs serving different constituencies

Disadvantages:

- A better end-point for negotiations than starting point.
- More complicated than simply "holding students harmless" or "leaving direct lending alone."
- moves us toward real reform + price competition in the FFEL program.

3/30/98 Technical drafting assistance [interest rates, pilot]
[page and line numbers refer to 3/25/98 Senate discussion draft]

Page 11, insert immediately after line 11 the following (and renumber accordingly):

"INTEREST RATES

"SEC. 424. (a) INTEREST RATES.--Section 427A is amended--

"(1) in subsection (g)--

"(A) in paragraph (1), in the matter preceding subparagraph (A), by striking out 'but subject to subsection (h),'; and

"(B) in paragraph (2), by amending subparagraph (2)(B) to read as follows:

"'(B)(i) 2.5 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1995 and before July 1, 1998; or

"'(ii) 1.7 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1998;'; and

"(2) in subsection (h)--

"(A) in paragraph (1)--

"(i) in the matter preceding subparagraph (A), by striking out '(f), and (g) of this section,' and inserting in lieu thereof 'and (f),'; and

"(ii) by amending subparagraphs (A) and (B) to read as follows:

"'(A) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"'(B) 2.3 percent;'; and

"(B) in paragraph (2)(A), by striking out '"2.1 percent"' and

'"1.0 percent"' and inserting in lieu thereof '"3.2 percent"' and '"2.3 percent"', respectively.".

On page 1 *[draft O:\SIG\SIG98.385]*, insert immediately after line 2 the following (and renumber accordingly):

"INTEREST RATES

"SEC. 451. Section 455(b) is amended--

"(1) in paragraph (2)--

"(A) in subparagraph (A), in the matter preceding clause (i), by striking out 'but subject to paragraph (3),'; and

"(2) in subparagraph (B), by amending clause (ii) to read as follows:

"'(ii)(I) 2.5 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1995 and before July 1, 1998; or

"'(II) 1.7 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1998;';

"(2) in paragraph (3)--

"(A) in the matter preceding subparagraph (A), by striking out 'paragraphs (1) and (2),' and inserting in lieu thereof 'paragraph (1),'; and

"(B) by amending subparagraphs (A) and (B) to read as follows:

"'(A) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"'(B) 2.3 percent;'; and

"(3) in paragraph (4)(B), by amending clauses (i) and (ii) to read as follows:

"'(i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"'(ii) 3.2 percent;'.".

On page 34, insert immediately after line 22 the following (and renumber accordingly):

"(1) in subsection (b)--

"(A) in paragraph (2)--

"(i) in subparagraph (A), by striking out 'subparagraphs (B), (C), (D), (E), and (F)' and inserting in lieu thereof 'subparagraphs (B), (C), (D), (E), (F), and (G)';

"(ii) in subparagraph (E)--

"(I) by striking out 'In' and inserting in lieu thereof 'Except as provided in subparagraph (G)(ii), in'; and

"(II) by inserting a comma and 'or "1.9 percent", as the case may be,' immediately after '"2.5 percent"';

"(iii) by amending subparagraph (F) to read as follows:

"'(F) Except as provided in subparagraph (G), the special allowance paid pursuant to this subsection on loans for which the applicable rate of interest is determined under section 427A(h) shall be computed by--

"'(i) subtracting the applicable interest rate on such loans from the applicable bond equivalent rate determined under such section;

"'(ii) adding 2.5 percent to the remainder; and

"'(iii) dividing such resultant percentage by 4;

"'except that if such computation produces a number that is less than zero, such loans shall be subject to section 427A(i).'"; and

"(iv) by adding at the end thereof the following new subparagraph:

"'(G)(i) Notwithstanding any other provision of this part, the Secretary is authorized to carry out ~~a~~ pilot programs that would determine payments to lenders for loans made under 428 and 428H on or after July 1, 1998, but before July 1, 2000 through a bidding system in lieu of the special allowance payments authorized by this section. The Secretary may use such bidding system to determine the payments to lenders with respect to such loans for not to exceed **[$ amount of loan volume during such period]**. 10%

"'(ii) Notwithstanding any other provision of this part, for loans made under section 428 and 428H on or after July 1, 2000, the Secretary is authorized to implement a bidding system to determine payments to all lenders in lieu of the special allowance payments authorized by this section. The preceding sentence may be implemented only with the concurrence of the Secretary of the Treasury that such bidding system would ~~help to~~ ensure loan availability under this part to all students at all participating institutions. If the Secretary of the Treasury does not so concur, the special allowance for lenders shall be calculated under subparagraph (E) or (F), as the case may be, by substituting "1.7 percent" and "2.3 percent" for "1.9 percent" and "2.5 percent", respectively.'; and

"(B) in paragraph (3), by striking out 'The holder' and inserting in lieu thereof 'Except as provided in paragraph (2)(G), the holder'.".

DRAFT
3/31/98

Talking Points on the Kennedy Interest Rate Amendment

o The Committee bill maintains the July 1 interest rate reduction for students but does it at the expense of taxpayers. CBO estimates that the interest rate proposal in our bill would cost taxpayers between $1.2 and $3.8 billion over the next five years.

o I am committed to maintaining low interest rates for students but not at the expense of taxpayers. We know -- according to CBO, CRS and Treasury -- that lenders are now making excessive profits in the student loan program.

o My amendment protects students and taxpayers while ensuring the availability of FFEL loans for students. The amendment also introduces competition into the determination of payments to lenders. The market place is much better equipped to set the right price for lenders than we in Congress are.

o My amendment reduces federal costs compared with the proposal in the Committee bill. It is between $1.1 and $1.7 billion less expensive over five years.

o Specifically my amendment:

- Sets student interest rates at the same level as the committee bill thereby ensuring that students get the interest rate reduction scheduled to begin July 1st.

- Provides a higher payment to lenders for two-years -- 91-day T-bill plus 1.9 while students are in school and 91-day T-bill plus 2.5 when borrowers are out of school. This level ensures that loans are profitable for lenders -- providing them a rate of return slightly above the mid-point of the Treasury range.

- During this two year period, the Secretary of Education will conduct pilot programs to determine payments to lenders through a bidding system. The Secretary could conduct pilots for up to 10 percent of estimated FFEL lending.

- At the end of two years, the Secretary is authorized to implement a bidding system to determine payments for all FFEL loans. The Secretary of Treasury must certify that the bidding system will ensure

FFEL loan availability to all students at all participating institutions.

- If the Secretary of the Treasury determines that the bidding mechanism will not ensure appropriate FFEL availability, then the yield to lenders will be reduced to equal the students' interest rate.

o Widespread support exists for trying a market-based mechanism to determine student loan rates. The Senate Budget Committee, in its recent budget resolution, "urges Committees of jurisdiction to more seriously explore a long-term solution to the interest rate problem, namely, moving toward a student loan program where the market place, not Congress, sets the interest rate for loans." It is time we moved in this direction.

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4 pages

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FROM: *Connie J. Bowers*

DATE: **Tue Mar 31, 1998 5:20pm**

No. of Pages (including transmittal sheet):

OMB AND ED EDITS TO TREASURY TALKING POINTS on CBO ANALYSIS

Call if this is not clear == 395-3803.

~~**COMMENTS**~~**:**

URGENT

DRAFT March 31, 1998 **DRAFT**

CBO Analysis Confirms Main Conclusions of Treasury Study

In February, the Treasury Department released a detailed analysis of the financial viability of the government-guaranteed student loan program. That study had three primary conclusions:

- Under the current interest rate structure, bank participants earn a rate of return substantially above the competitive rate required to participate in the FFEL program.
- Under the scheduled interest rate change for July 1, banks would earn a rate of return that is substantially below this competitive level
- Providing An 80 basis point cut in the rate to students, ~~holding them harmless from~~ would give them the benefit of the July 1 change, and could leave banks with a competitive rate of return over the next five years, with interest rates as generally expected.

Yesterday, the CBO released an analysis which is the only other independent examination of the financial viability of this program. This analysis uses a different methodology than the Treasury study in some important respects, yet it draws *remarkably consistent conclusions*. In particular, the study finds:

Question: Do banks [illegible]

- Banks currently earn a rate of return well above the competitive rate of return required for FFEL participation. For loans held in lenders' portfolios, the average after-tax rate of return on equity is 20 percent according to the CBO study. This is almost identical to the after-tax rate of return on equity found in the Treasury study.[1]

  For banks that securitize their loans, which is a growing source of financing for important student lenders, the average after-tax rate of return on equity is 29 percent. This exceeds by a large margin both the overall after-tax rate of return on equity in the banking sector (15 percent in 1996), and the target rate of return required for participation in FFEL, which is lower (according to both Treasury and CBO).

- Banks cannot earn a competitive rate of return under the July 1 change.
- Banks can earn a competitive rate of return with a large reduction specified in (or suggested by) in the FFEL markup over T-bills. The exact reduction in markup that lenders can bear under the CBO analysis is difficult to interpret. Unlike Treasury, the CBO analysis makes a number of assumptions on the distribution of costs across the life of loans. These assumptions are not laid out in detail and are therefore impossible to verify. But it is worth noting that

---

[1]More precisely, the CBO study produces a weighted average rate of return on equity of 19.5%. The Treasury study finds a rate of return on assets of 163 basis points; with a five percent capitalization, this implies a rate of return on equity of 19.6%.

which are based on

(not sure they're exaggerated)

DRAFT March 31, 1998 **DRAFT**

(40 ways 10% look better)

CBO's

~~their~~ assumptions appear to involve a large amount of front-loaded costs of loan origination. These costs ~~may be exaggerated~~ by marketing and corporate overhead allocation rules ~~that bear no relationship to~~ true economic costs.

overstate

Nevertheless, using the basic CBO results, it is possible to infer the effects of alternative reductions in the FFEL markup. The results of doing so are shown in the accompanying Table.

- CBO's basic model yields the same conclusion as the Treasury report: the Administration's proposed 80 basis point reduction will leave lenders with an after-tax return on equity of 10% on loans where there's no risk of loss because of the Gov't guarantee. This is independent of the form of financing (borrowing or securitization).
- A proposed reduction of 60 basis points would yield much higher rates of return for lenders, ranging between 13 and 15% depending on the form of financing.
- The House proposal would leave lenders with a very high rate of return, ranging from 16 to 22% depending on the form of financing chosen. Even the lower bound of this range is above the very high profits earned by large banks on average in recent years. Moreover, the CBO analysis agrees with the Treasury study that applying the average rate of return for lenders to their very secure student loans is inappropriate. As the report states: "In summary, banks do not require the same returns on FFELs that they require overall, since federally guaranteed student loans are less risky than the average bank asset."

The following table was constructed applying CBO's assumptions on ______ to Treasury's estimation methodology.

Table: Rate of Return on Equity for Lenders in FFEL Program under Alternative Formulas

	Portfolio Lending	Securitization
Current Formula - T-bill plus 2.5/3.1	20	29
Administration Proposal - T-bill plus 1.7/2.3	10	10
Alternative Senate Position - T-bill plus 1.9/2.5	13	15
House Position - T-bill plus 2.2/2.8	16	22

Skip

(Treasury to fill in)

DRAFT March 31, 1998 **DRAFT**

Conclusion

The CBO analysis confirms the important conclusions of the Treasury study, and suggests that lenders in the FFEL program could bear a large reduction in the interest rate that they receive. *This concordance between the only two independent analyses of lender viability belies the conclusions of the banking industry that the FFEL program is only marginally profitable today, and that banks cannot bear a ~~substantial~~ reduction in the T-bill markup* to competitive levels.

U. S. Department of Education
Cost Estimate
(in millions of dollars)

A Comparison of Student Loan Interest Rate Proposals

	1998	1999	2000	2001	2002	2003	1998-2003
Administration Proposal							

Change student interest rate as of July 1, 1998, to 91-Day Treasury Bill plus 1.7 percent during in-school, grace, and deferment periods and 91-day Treasury Bill plus 2.3 percent during repayment. Change parent rate to 91-Day Treasury Bill plus 3.2 percent.

	1998	1999	2000	2001	2002	2003	1998-2003
Administration Estimate							
BA	-$51	-$94	-$115	-$118	-$125	-$128	-$632
Outlays	-$31	-89	-98	-108	-113	-117	-537
CBO Estimate - Probability basis							
BA	35	230	200	185	180	185	1,015
Outlays	25	160	190	170	165	165	875
CBO Estimate - Traditional basis							
BA	-230	-235	-275	-315	-330	-345	-1,730
Outlays	-135	-205	-240	-270	-300	-310	-1,460

House Proposal

Adopt Administration proposal on student and parent rates. Lender returns on FFEL loans would equal the 91-day Treasury Bill plus 2.1 percent during in-school, grace, and deferment periods and the 91-day T-Bill plus 2.8 percent during repayment. Lender return on parent loans would equal the 91-Day Treasury Bill rate plus 3.7 percent.

	1998	1999	2000	2001	2002	2003	1998-2003
Administration Estimate							
BA	275	550	577	601	642	678	3,323
Outlays	178	391	509	531	562	596	2,767
CBO Estimate - Probability basis							
BA	525	715	740	805	855	880	4,520
Outlays	335	590	665	710	760	790	3,850
CBO Estimate - Traditional basis							
BA	235	195	210	240	265	275	1,420
Outlays	150	180	185	210	235	250	1,210

Bridge Proposal

Adopt Administration proposal on student and parent rates. Lender returns on FFEL loans would equal the 91-Day Treasury Bill plus 1.9 percent during in-school, grac and deferment periods and the 91-Day Treasury Bill rate plus 2.5 percent during repayment from July 1, 1998, through June 30, 2000, after which they would receive the student or parent rate.

	1998	1999	2000	2001	2002	2003	1998-2003
Administration Estimate							
BA	72	136	6	-118	-125	-128	-158
Outlays	43	105	44	-71	-113	-117	-110
CBO Estimate - Probability basis [1]							
BA	452	615	418	185	180	185	2,035
Outlays	288	511	428	228	163	165	1,783
CBO Estimate - Traditional basis [1]							
BA	202	168	-47	-315	-330	-345	-667
Outlays	129	160	14	-213	-293	-307	-510

[1] Reflects Administration estimate using CBO methodology.

CBO Study: White House's Proposed Loan Rate Too Low

EDUCATION A CBO STUDY released Tuesday reported that the Clinton administration's student loan interest rate proposal would make loans to most students unprofitable for banks and other private lenders.

The administration's rate would still be profitable for larger, longer-term loans to graduate and postgraduate students, the CBO study found. But for two- and four-year college students at cheaper schools, banks and private lenders would not make a profit, the CBO concluded.

Differences between the CBO and the OMB about the profitability threshold for student loans result from different methodologies and assumptions.

Current law schedules a cut in the student loan rate for new loans on July 1, 1998. But both Republicans and Democrats believe that rate is so low banks would leave the student loan system in droves, stranding students.

The administration proposed a new rate equal to a 91-day Treasury bill plus 2.3 percent. Banks argue that rate also is too low — and the CBO backed those claims with its report Tuesday.

But administration officials believe banks will continue offering the guaranteed, no-risk student loans at that rate.

House Education and the Workforce Chairman Goodling and **Senate Labor and Human Resources Chairman Jeffords**, as part of the Higher Education Act reauthorization, have proposed that students pay the Clinton administration rate.

But by having the federal government add $2 billion in subsidies over five years, banks would receive a rate equal to a 91-day T-bill plus 2.8 percent.

The CBO's original report only addressed the administration's plan. But in an addendum sent to the Senate Budget Committee, CBO officials said the Goodling-Jeffords rate is slightly above the range of profit margins historically made by banks on all of their long-term assets.

— *By Matthew Morrissey*

Senate Votes 'No' On Immunity For Tobacco Industry

HEALTH THE SENATE Tuesday signaled its disapproval of one of the foundations of the settlement between the state attorneys general and the tobacco industry, voting overwhelmingly in favor of a sense of the Senate resolution that no "immunity" from civil lawsuits be granted to cigarette makers.

The measure, introduced by **Sen. Judd Gregg**, R-N.H., was passed by a 79-19 vote. The only two Democrats to vote against it represent tobacco states: **Commerce ranking member Ernest (Fritz) Hollings**, D-S.C., and **Senate Minority Whip Ford** of Kentucky.

Gregg afterward said he meant the motion to include disapproval of provisions that would cap the industry's annual liability, even though the measure's text does not say so.

However, other senators clearly did not embrace Gregg's interpretation, since several who have introduced legislation with such caps — such as **Commerce Chairman McCain** and **Environment and Public Works Chairman Chafee** — voted in favor of the motion.

Meanwhile, Chafee, **Agriculture ranking member Tom Harkin**, D-Iowa, and **Sen. Bob Graham**, D-Fla., Tuesday formally introduced their legislation that would cap industry payments on an annual basis without granting it immunity from civil lawsuits.

The bill also calls for the price of cigarettes to be raised by $1.50 per pack within two years.

Harkin Tuesday indicated the bill will not be considered in committee, but said there may be an effort to attach sections of the bill to other vehicles on the floor.

One such vehicle, a bill offered by McCain, will be marked up today by the Commerce panel.

Senate Majority Whip Nickles predicted that the McCain bill would be passed by the Commerce Committee this week, but said there was no guarantee that its caps on industry liability would be preserved by the full Senate.

After the bill comes out of the Commerce panel, Nickles said, he will press other senators to "do a lot of homework on the bill" and seek to gauge the view of both GOP and Democratic members on the liability question.

"I've requested my colleagues to review [the McCain bill] and to be making some decisions shortly after we get back [from the Easter recess]," Nickles said.

Nickles indicated that he saw no possibility that greater protections for the industry, such as "immunity" from certain types of civil lawsuits, would be inserted into the bill by the Senate.

He suggested there is not necessarily a need for any protection for the industry, nor for enactment of the framework of the tobacco settlement — which he said would mean the "transfer of hundreds of billions of dollars ... either to states or other entities."

The tobacco industry therefore does not have to agree to the bill, in Nickles' view, and industry lobbyists "have not proven to be very influential in the process" of crafting legislation, he said.

The White House, he added, had "double crossed" the cigarette makers by supporting the settlement and then "walking away from them."

Nickles also said he has advocated divvying up funds from the tobacco bill later rather than trying "to write the tobacco bill on the budget resolution."

In a related development, a spokesman for five major tobacco companies issued a statement saying the industry would not agree to the terms in McCain's bill.

— *By Keith Koffler*

Hill Briefs

High Tech Execs Back Abraham Bill

■ WITH MARKUP SCHEDULED for Thursday on his bill to increase the number of visas given to highly skilled foreign workers, **Senate Judiciary Immigration Subcommittee Chairman Spencer Abraham**, R-Mich., Tuesday released a letter endorsing the measure signed by the chief executive officers of 14 high technology firms.

Among the signers are Bill Gates of Microsoft, James Barksdale of Netscape, Craig Barrett of Intel and George Fisher of Eastman Kodak.

"We are writing to express support for critical legislation you are sponsoring," the CEOs told Abraham. "Our companies alone have tens of thousands of unfilled positions, and these unfilled positions are preventing us from growing and innovating to our full potential."

Abraham's bill would permanently increase the annual ceiling for visas granted to highly skilled foreigners from 65,000 to 90,000. An alternative by **Sens. Edward Kennedy**, D-Mass., and **Dianne Feinstein**, D-Calif., would raise the ceiling to 90,000 only for the next three years.

Dems Call '97 Tax Act A 'Trojan Horse' ...

■ HOUSE APPROPRIATIONS **ranking member David Obey**, D-Wis., and **Rep. Robert Matsui**, D-Calif., Tuesday joined with the Citizens for Tax Justice group to attack the 1997 tax act — which they said grants large capital gains tax breaks for the wealthy, but provides little relief for most Americans.

"It was really a Trojan horse to drive through the biggest tax give away I've seen in the 29 years I've been here," Obey said.

Robert McIntyre, director of Citizens for Tax Justice, said that — based on early 1997 tax returns — only one in 17 of the 80 percent of tax filers making less than $59,000 will get a tax cut.

By contrast, McIntyre said the top 1 percent will enjoy an average tax cut of more than $7,000.

... As They Push Cap. Gains Alternative

■ HOUSE DEMOCRATS HAVE been working other tax angles as well: Democratic Ways and Means members will hold a news conference this morning to announce their support for a bill, sponsored by **Rep. William Coyne**, D-Pa., which is designed to simplify the calculation of capital gains tax liability.

Ways and Means Chairman Archer has said the 18-month holding period for capital gains approved last year is cumbersome, and he has called for its repeal.

But the Democrats contend Archer's plan would simply provide a tax break for the wealthy without making the capital gains tax process any less complicated.

Under Archer's proposal, the Schedule D form used for capital gains would still have four categories with which to contend, according to the Ways and Means Democrats' spokeswoman.

Coyne's bill, on the other hand, would allow taxpayers to exclude 40 percent of their capital gains from taxation. The other 60 percent would be taxed at the regular tax rate. The bill is revenue-neutral.

Bill To Raise Business Meal Deduction Unveiled

■ **REPS. JIM MCCRERY**, R-La., and **John Tanner**, D-Tenn., unveiled a bill Tuesday that would increase the allowable business meal deduction from 50 percent to 80 percent for small businesses and the self-employed — reinstating the level that was lowered in a 1993 tax revision.

The members announced the bill at a news conference attended by business and restaurant lobbyists, restaurant owners and sales representatives.

A National Restaurant Association spokeswoman said the bill would "greatly help small business and boost the economy," adding that small businesses need the deduction "to foster relationships" and rely on meals for important "one on one" communication.

Michael Wolen, executive director of the National Alliance of Sales Representatives, said the bill could save his members an average of nearly $500 after taxes. "Most of our members will take this money and use it to drive their businesses," he said.

Murkowski, Nickles Seek Royalty Relief

■ SENATE ENERGY AND **Natural Resources Chairman Murkowski** and **Majority Whip Nickles** this week plan to introduce legislation to provide small oil and gas producers with royalty rate relief and leasing and access assistance.

Among other things, the bill would transfer authority over certain federal oil and gas lease management functions on federal lands from the Bureau of Land Management to the states and give the Interior secretary permanent authority to grant royalty rate reductions on federal stripper oil and gas wells.

Another section of the bill would provide for tax credits for existing marginal wells — wells that produce less than 15 barrels of oil per day or that produce heavy oil.

The bill also would create an incentive for independent oil and gas producers to put abandoned wells back into production, by allowing for these producers to exclude income attributable to oil and gas recovered from an inactive well.

7/1/98

Groups on DL causal rate

• Adey:

- Ivan: Thanks. Kaplan to students.
  $100K of loans

- Day/-Bug replacement:
  what after 3 mo?
  A. we think they all shd be 2.3.
  best approach given a diff. situation

• Harrle - Press release ??

— Q&A include some examples.

- Fed Register
Response from Kohl ?
  Adey: 'Right thing to do.'

⇒ they can lower their rate w/o considering...

Barnak - still in appreciating the decision
  thank for leadership on critical issue.

— 60-90 days : faster than industry std.

Pauline Abernathy
Office of the Deputy Secretary
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-0500
Phone (202) 401-1000
Fax (202) 401-9027

TO: ~~Ellen~~ Bob Shireman

FAX: 202 456 2223

PAGES (including cover page): ______

FROM: **Pauline Abernathy**

RE: ______

Author: Stephanie Babyak at WDCB02
Date: 11/2/98 5:03 PM
Priority: Urgent
TO: David Frank, Jane Glickman, Pauline Abernathy at WDCB01, Kristi Kimball at WDCB01, Denise Leifeste at WDCQ02, Jill Riemer at Wdcb04, Diane Rogers at WDCA01, Shelley Amdur at WDCB01, Joyce Rice at WDCA09
CC: Dan Madzelan at WDCA07
TO: Laura Segal
Subject: LC Release

Attached -- I hope -- is the latest lc release that incorporates Danny Madzalen's changes. **PLEASE REVIEW AND PROVIDE COMMENT BY TUESDAY PM,**

DIANE ROGERS IMPORTANT -- please read the section carefully on the amount of time it takes for a typical loan consolidation. Should we say "requires a minimum of 60 - 90 days" or "at least 60 days" ... some phrase to protect us in the event of a deluge of apps that bump the time up to 120 days or more...??

The thrust of Danny's change is to say the calculation method of using T-bill plus 2.3 percent will revert back to T-bill plus 3.1

Jane is here Tuesday.

Thanks all.

Her phone number is 4012311

FOR RELEASE
Nddrafts:cons.rush

Contact: Jane Glickman (202) 401-1307

NOW IS THE TIME TO SAVE MONEY BY CONSOLIDATING YOUR FEDERAL STUDENT LOANS

Homeowners aren't the only ones who should be giving serious thought to refinancing. For the next three months only -- between now and January 31, 1999 ---borrowers can refinance outstanding federal student loans at a new, lower interest rate of 7.46 percent.

"Rarely before has the phrase, "seize the opportunity" been more applicable," said U.S. Secretary of Education Richard W. Riley. "Borrowers have only ~~a few months~~ to consolidate their federal student loans, lower their monthly payments, and keep their debt burden at manageable levels. I strongly urge all eligible borrowers to be wise financial consumers and take advantage of this brief window to lower their interest rate and save themselves a considerable amount of money over the life of their loan."

X days to apply

Under this lower interest rate, most students save at least $50 for every $1,000 of debt over the life of their loans. The typical student borrower at a 4-year college, who graduates with $13,000 in debt, will save about $700 over a ten-year repayment period.

Consolidated loans at the low rate are available through the Department of Education's Direct Loan Program. For more information call 1-800-557-7392 or visit the direct loan web site at www.ed.gov/DirectLoan/consolid2.html. Private lenders who participate in the government-guaranteed student loan program may also offer the lower rate, although they are not required to do so.

The provision that lowers the interest rate on consolidated loans until January 31, 1999, is contained in the Higher Education Amendments of 1998, signed by President Clinton on October 7. The Clinton Administration had sought to keep the interest rate on consolidated loans consistent with the new low rate of 7.46 percent for new student loan borrowers, but the Congress extended this method of computing consolidated loans only until January 31, 1999. Beginning February 1, the consolidation interest rate will be based on the average rate of the borrower's underlying loans, weighted by loan size, rounded up to the nearest one-eigth of one percent, and capped at 8.25 percent. The post-January rate will be less favorable for most students compared to the current rate available during this brief period, because the post-January rate will be up to .8 percentage points more than it is now. (The interest rate calculation will revert back to T-bill plus 3.1 percent after January 31 from this one-time only T-bill plus 2.3 percent.)

Through loan consolidation, borrowers combine one or more of their outstanding student loans into one loan. In addition to the break on interest costs, Riley said other benefits often result from loan consolidation, such as eliminating the hassle of dealing with multiple lenders, allowing the borrower to repay the loan as a share of his or her income, and extending the repayment period, but he cautioned that each borrower's individual situation may vary.

A direct consolidation loan is available to anyone in repayment and to in-school borrowers who have only direct loans. Other helpful points include:

- a single loan can be consolidated
- a previously consolidated direct loan can be consolidated again at the lower rate
- all loans do not have to be included in the consolidation
- a typical loan consolidation requires 60 to 90 days to process, chiefly because each lender must submit paperwork to verify the loan balance; a shorter time period will apply for borrowers who only have direct loans
- a direct consolidation loan can be paid off at any time without penalty

Borrowers who wish to apply for a loan consolidation through the direct loan program should call 1-800-557-7392 and ask for an application; borrowers can also apply electronically or download an application from www.ed.gov/DirectLoan/consolid2.html.

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617-495-4955

Bob Shireman
Senior Policy Advisor
Domestic Policy Council, The White House
219 Old Executive Office Building
1600 Pennsylvania Ave., NW
Washington, DC 20500

Nov. 13, 1998

Dear Bob:

Thanks for your help and suggestions today.

I've attached a corrected copy of my November 4, letter to you regarding loan flexibility and the Javits program. It is revised to reflect the voice mail I left for you last week regarding the cost estimates. My apologies for the error.

Hope to see you before too long.

Regards,

Nan

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Bob Shireman
Senior Policy Advisor
Domestic Policy Council, The White House
219 Old Executive Office Building
1600 Pennsylvania Ave., NW
Washington, DC 20500

CORRECTED COPY

November 13, 1998

Dear Bob:

I am writing to follow up on our discussion Tuesday regarding potential Administration support for funding in your FY 2000 budget for legislation to address the growing use by students of private alternative loan programs, which are more expensive and more difficult to repay than federal loans.

Interestingly enough student aid experts seem to agree that although the aggregate loan limits for the subsidized and unsubsidized loan programs have not been increased in some time, it is the annual loan limits that are forcing students into the less advantageous private sector programs. According to the College Board (1998 "Trends in Student Aid") in 1997-98 almost $2 billion in non-Federal students loans was borrowed, up from more than $1.7 billion in 1996-97 and over $1.3 billion two years ago. The 1997-98 estimate includes $1.6 billion in private sector loans, more than half of which was borrowed by graduate students. During the same period, about $350 million in state sponsored borrowing through state appropriations or tax exempt bonds, directed primarily to undergraduates and their families.

We and a number of other public and private institutions and eventually most of the presidential associations sought to add language to the reauthorization bill that would have allowed students to borrow over four years the aggregate amount that is currently only available to them over five years. This rule would apply to both graduate and undergraduate Federal loan aggregates and both subsidized and unsubsidized loans. (See attached description.)

The primary concern expressed by Hill staff about this proposal was cost, which was driven by the CBO decision to use probabilistic scoring for all provisions of the reauthorization bill except the interest rate fix. In addition, there seemed to be two main policy concerns: whether the institutions would raise tuitions to capture these loans and implications for the fifth year student. With regard to the first, since NCES data show that loans as a percent of the student aid budget are declining such a result seems unlikely. (See letter to Senator Reed.) With regard to the second concern, several staff felt that fifth year students would be disadvantaged by our proposal. However, all student borrowers, including fifth year borrowers, benefit if they can access the significantly better Federal loan programs earlier rather than later in their borrowing career. Further, if the fifth year student has not reached the aggregate limit, borrowing through the Federal programs could still occur in the fifth year.

In an effort to address cost concerns, Congressman Roemer offered a more limited proposal during House floor debate that would have added flexibility only to the annual limits on unsubsidized loans for dependent and independent undergraduates and graduate and professional students. Unfortunately this proposal was withdrawn because CBO had not provided an official cost estimate.

A sense of the Senate resolution was added to the managers' amendment on the Senate floor in the hope that it might allow the conferees to address this issue should funds be found to pay for it. Ultimately, however, the proposal did not make it into the conference allegedly because offsets weren't available. Please note though that Senator Jeffords, Congressman McKeon and Congressman Goodling all expressed interest in and support for this legislation during the reauthorization debate.

With regard to the cost, we have at least three official estimates since we continued to scale back the original proposal to try to address that issue. However, we have never become fully comfortable with them due to the unexplained high interactive effects. But in any case, we were advised that the Roemer Amendment (unsubsidized loans only) was estimated to cost $695 million over 5 years, with much of the cost assigned to interactive effects. A scaled back version of the Roemer Amendment that excluded freshmen was estimated to cost $344 million over the same period.* Later, CBO examined the implications of also adding default rate eligibility limits to the Roemer Amendment. They found that a 4% default rate, it would cost $135 million over 5 years and $190 million using a 5% rate and $290 million at 7.5%.

Fyi, some staff opposed default rate limits, which seemed to be driven by concern that the benefits of flexibility would be limited to students at elite institutions. However, a three-year rolling default rate average (1994-96) reveals that under a 7.5% cut off 1730 schools would qualify as would 1032 using a 5% rate. In the meantime, default rates have declined further.

I have enclosed several documents that might be helpful to you in thinking about this proposal and whether it merits Administration support, budgetary and otherwise. They are: a one page description of the original proposal, a two page description of the Roemer

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* Please note that this estimate did not give us the benefit of the savings from the sunset of the interest rate fix and assumed that our proposal would increase the unsubsidized cumulative borrowing limit.

proposal, a letter to Senator Reed commenting on loans as a percent of the student budget, a McKeon floor colloquy and a Jeffords floor colloquy.

Finally and perhaps relevant is the fact that the Administration recognized the need for loan limit relief for at least some graduate and professional students early last year when Secretary Reilly approved an increase in the aggregate unsubsidized loan limits for health professions students.

Please let me know if you any questions or need additional information. My telephone number is (202) 863-1292. In the meantime, as we agreed, I will follow up with you on Friday, November 13th. Thanks again for taking time to consider this issue and the important cost, debt management and simplification advantages of it.

In closing – and I hope that I'm not pushing my luck - your support for funding of the Javits Fellowship Program in the Arts, Humanities and Social Sciences. As you know, this is the only Federal grant program for students in these disciplines. These fellowships are vitally important to these students, who face relatively low paying careers as the "teachers of teachers" in fields that develop communication, critical thinking and writing skills, the need for which is widely recognized.

Again and, as always, many thanks.

Sincerely,

Nan

Nan F. Nixon
Director
Federal Relations

ORIGINAL PROPOSAL

LOAN FLEXIBILITY PROPOSAL TO REDUCE STUDENT DEBT

THE PROBLEM:
ANNUAL CEILINGS IN THE FEDERAL LOAN PROGRAMS PREVENT STUDENTS FROM BORROWING UP TO CUMULATIVE LOAN MAXIMUMS ALREADY ALLOWED BY LAW, RESULTING IN HIGHER DEBT AS STUDENTS ARE FORCED TO BORROW FROM MORE EXPENSIVE ALTERNATIVES.

GENERAL SOLUTION:
GIVE NEEDY STUDENTS WHO REPAY THEIR LOANS THE OPTION TO BORROW UP TO EXISTING CUMULATIVE MAXIMUMS ($23,000 FOR UNDERGRADUATES AND $65,500 FOR GRADUATE STUDENTS IN SUBSIDIZED LOANS; $137,500 FOR GRADUATE STUDENTS IN UNSUBSIDIZED LOANS).

1. PERKINS LOANS: THE LOWEST-INCOME STUDENTS SHOULD BE ABLE TO HAVE THEIR BORROWING NEEDS MET VIA THE LOW-COST, PERKINS PROGRAM THEREBY ELIMINATING ANY NEED FOR THEM TO BORROW FROM MORE EXPENSIVE ALTERNATIVES.

   SOLUTION: REMOVE ANNUAL PERKINS LOAN CEILINGS AND REPLACE THEM WITH AN AMOUNT EQUAL TO THE COST OF ATTENDANCE MINUS THE FAMILY CONTRIBUTION PLUS ALL OTHER FORMS OF NEED-BASED FINANCIAL AID, WITH A NEW CUMULATIVE UNDERGRADUATE MAXIMUM OF $23,000. THE COST OF THIS CHANGE WOULD BE ZERO.

2. FFEL/DIRECT SUBSIDIZED LOANS: CURRENT LAW ALLOWS UNDERGRADUATES TO BORROW UP TO $23,000 AND GRADUATE STUDENTS UP TO $65,500 IN SUBSIDIZED FFEL/DIRECT LOANS, BUT MOST STUDENTS ARE NOT ELIGIBLE TO BORROW UP TO THESE AMOUNTS BECAUSE OF ANNUAL CEILINGS.

   SOLUTION: REPLACE ANNUAL CEILINGS WITH A FORMULA THAT ALLOWS NEEDY STUDENTS AT LOW-DEFAULT INSTITUTIONS TO BORROW WITHIN EXISTING CUMULATIVE CEILINGS BEFORE HAVING TO RESORT TO MORE EXPENSIVE ALTERNATIVES.

3. FFEL/DIRECT UNSUBSIDIZED LOANS: GRADUATE AND PROFESSIONAL STUDENTS WHO ARE GOOD CREDIT RISKS SHOULD BE ALLOWED TO MEET THEIR CREDIT NEEDS BY BORROWING UP TO EXISTING CUMULATIVE CEILINGS BEFORE HAVING TO TURN TO MORE EXPENSIVE, PRIVATE ALTERNATIVES.

   SOLUTION: ELIMINATE ANNUAL LOAN CEILINGS FOR GRADUATE AND PROFESSIONAL STUDENTS AT LOW-DEFAULT INSTITUTIONS AND ALLOW THEM TO BORROW FROM THE FEDERAL UNSUBSIDIZED LOAN PROGRAM (WITHIN CURRENT LIFETIME MAXIMUMS) UP TO THE COST OF ATTENDANCE MINUS OTHER FORMS OF AID. THIS CHANGE SHOULD RESULT IN REVENUE INCREASES TO THE FEDERAL GOVERNMENT.

POLICY PERSPECTIVES:

- Under the existing annual federal ceilings current cumulative undergraduate borrowing is set at $23,000 ($2,625 1st year; $3,500 2nd year; $5,500 as needed for each of the last 3 years). Because these one-size-fits-all, annual ceilings were established to limit the government's exposure to defaults associated with first- and second-year dropouts, millions of students who graduate in the traditional four years are prevented from borrowing existing loan maximums <u>already allowed by law</u>.

- Due to the annual ceilings, increasing numbers of needy students have no choice but to borrow from more expensive, private programs. Not only are these programs more expensive, but interest rates are not capped, leaving students vulnerable to dramatically higher monthly payments when rates increase.

- With more flexible annual loan ceilings, students could be kept in a single program, thereby allowing them to consolidate their debt, lower the cost of monthly payments, and eliminate the complications associated with multiple loan repayments.

- These adjustments give deserving students who graduate on time <u>and</u> who are likely to pay back their loans the same capacity to borrow that is available to students who attend college for five years or more, regardless of whether they graduate.

- Federal loan ceilings established in this reauthorization will affect students' capacity to borrow through academic year 2005-06. Current law must be updated to address students' credit needs for many years to come.

LOAN FLEXIBILITY PROPOSAL HOW IT WORKS AND WHY IT IS NEEDED

PURPOSE AND SCOPE OF THE PROPOSAL

The loan flexibility proposal is designed to give students greater borrowing flexibility under the federal student loan programs, so that they are not forced to rely on private loan programs that are more expensive and difficult to repay than federal loans. The proposed changes in the law would apply only to unsubsidized loans (that is loans for which the federal government does not pay interest on behalf of the student while the student is in school) for students enrolled in baccalaureate programs. None of the proposals would change the total amount that students may borrow under current law. The proposal Congress is considering has three parts, which apply, respectively to dependent undergraduate students, independent undergraduates, and graduate students.

Under current law, there are annual ceilings on the amounts a student may borrow under the federal student loan programs as well as cumulative limits on how much a student may borrow over an undergraduate or graduate course of study. A student who completes his or her undergraduate education in four years does not exhaust the cumulative undergraduate limits, and many students in graduate programs do not exhaust the graduate limits. Yet in those cases, the annual ceilings have the effect of forcing students to borrow from more expensive, private loan programs rather than the federal loan programs.

HOW THE LOAN FLEXIBLITY PROPOSAL WORKS

Congressman Roemer, Democrat from Indiana, introduced the loan flexibility proposal on the House side as an amendment to the Higher Education reauthorization.

As reflected in the Roemer amendment, the proposal has three parts as follows:

Dependent Undergraduates. Full-time dependent undergraduates would be permitted to borrow up to $1500 a year in unsubsidized loans in addition to the loans they may borrow under current law -- but the combined total of subsidized and unsubsidized borrowing could not exceed the existing undergraduate maximum of $23,000. Currently dependent undergraduates may borrow additional unsubsidized loans only under limited circumstances, forcing them into private loan programs with uncapped interest rates.

Independent Undergraduates. Independent undergraduates would be permitted to borrow up to $7200 per year in unsubsidized loans in lieu of the current maximums of $4000 for their freshman and sophomore years, and $5000 for their junior and senior years.

Graduate Students. Graduate students would be permitted to borrow unsubsidized loans up to the cost of attendance minus subsidized loans and other aid, provided that there is no change to the cumulative amounts graduate students are permitted to borrow under current law. Under current law, graduate students may borrow $8500 in subsidized loans and $10,000 in unsubsidized loans per year, meaning that amounts over those limits must be borrowed from private programs.

There are various ways to streamline the loan flexibility proposal if necessary to reduce costs, and we have made clear our willingness to work with Congress on streamlined versions.

WHY GREATER FLEXIBILITY IS NEEDED

The annual ceilings have the effect of forcing students to borrow from more expensive, private loan programs rather than the federal loan programs.

According to the College Board, in 1996-97, students borrowed approximately $1.2 billion from private sector loan programs.

The alternative private loans are not only more expensive than federal loans, but their interest rates are uncapped (federal student loans are capped at 8.25%), leaving students vulnerable to dramatically higher monthly payments when rates increase.

Furthermore, students who are forced to turn to private loan programs end up with multiple loans to repay to multiple sources. Under the federal student loan program students may consolidate all of their federal loans into a single monthly payment. Furthermore, they have many options, including income contingent repayment, to lower the cost of their monthly payments.

STATUS

In the House. During House debate Congressman Roemer withdrew his amendment because he had not yet received the cost estimate from the Congressional Budget Office. However, Congressman McKeon, Chairman of the subcommittee in charge of reauthorization, indicated on the record during the floor debate that he thinks that the loan flexibility proposal "has a great deal of merit," and he agreed to work further on it as the Higher Education bill moves to conference.

In the Senate. The managers' amendment to S. 1882, the Senate bill to reauthorize the Higher Education Act, includes a sense of the Senate resolution regarding the need for adding borrowing flexibility in the Federal loan programs.

July 15, 1998

Subject: THE FLOOR COLLOQUY ON FLEXIBLE LENDING AS AMENDMENT IS WITHDRAWN

5/5/98 ON HOUSE FOOR

VACATING PROCEEDINGS ON AMENDMENT NO. 54 OFFERED BY MR. ROEMER

Mr. McKEON. Mr. Chairman, with the concurrence of the gentleman from Indiana (Mr. Roemer), I ask unanimous consent that the request of April 29, 1998, for a recorded vote on the Roemer amendment numbered 54 be vacated and that proceedings by which the Committee considered and adopted that amendment by voice vote be vacated.

Mr. ROEMER. Mr. Chairman, reserving the right to object, I wanted to discuss with the gentleman from California (Mr. McKeon) an amendment that we had been working on in committee, starting actually at the subcommittee level and then going into the full committee and then going to the House floor, where I offered amendment to provide more flexibility for students to combine their loans for government subsidized and unsubsidized loans before trying then or being forced to go out into the private lending market, where they would take on added costs and where the rate might be 9 or 10 or 11 percent, but try to keep them at the 8.25 percent rate and thereby reduce costs, provide more flexibility and less regulation to many of the students that are trying to get into these markets and coming out with more and more debt once they graduate from school.

This is exactly what we have heard everywhere in our field hearings throughout the country, where the gentleman from Michigan (Mr. Upton) and I had a field hearing in South Bend, Indiana, and heard from about 20 different colleges about trying to provide more flexibility to our schools and less regulation.

This is an idea whose time has come, trying to help so many of the students that are coming out of school with debt. But we also realized that there may be a scoring problem here; and because CBO has been busy scoring other bills, we have not been able to finally get a score on this.

I know the gentleman from Michigan (Mr. Kildee) and the gentleman from California (Mr. McKeon) have worked hard to try to provide this flexibility and lessen the burden on students. I had asked for a rollcall vote on this loan flexibility amendment. My colleague had agreed to that. And I believe he and the gentleman from Pennsylvania (Mr. Goodling), as well, had agreed to support the amendment.

However, we still do not have a final scoring on this amendment. And in the interest of trying to make sure that we have bipartisan support for this amendment, I would like to get the feelings of my colleague on his support for this idea, that he has worked very hard on, and engage him in a colloquy.

Mr. McKEON. Mr. Chairman, will the gentleman yield?

Mr. ROEMER. Further reserving the right to object, I yield to the gentleman from California.

Mr. McKEON. Mr. Chairman, I thank the gentleman for yielding.

The gentleman from Indiana represents that great institution Notre Dame. As I mentioned during committee consideration, I think this loan flexibility agreement has a great deal of merit. I thank my colleague for bringing this to our attention, and I will continue to work with him on this proposal as we move to conference on H.R. 6.

Mr. ROEMER. Mr. Chairman, I appreciate the commitment of the gentleman to do that. I appreciate the commitment of the gentleman to students trying to get a lower rate. And I very much appreciate the hard work of the gentleman on this bipartisan bill to try to reduce regulations and increase flexibility.

Mr. Chairman, I withdraw my reservation of objection.

PARLIAMENTARY INQUIRY

Mr. ROEMER. Mr. Chairman, at this point let me ask a parliamentary inquiry. Is it proper for me

to ask unanimous consent at
this point to vacate the rollcall vote numbered 54?

The CHAIRMAN pro tempore. That is the pending request.

Is there objection to the request of the gentleman from California?

There was no objection.

The CHAIRMAN pro tempore. Without objection, the request of the gentleman from California is granted, and the
amendment is withdrawn.

Growth of the Internet has presented individuals with quick access to unlimited information. With an estimated 100 million users connected by year's end, its popularity is unmistakable.

Logically, entrepreneurs are catering to this growth through online sales. We are now seeing the online sale of books, airline tickets, and computer software. New companies are being created and old companies are adapting to provide products and services via the Internet. Companies such as Amazon.com and Dell computers are leading the way. Of course, large numbers of small businesses are focusing on Internet sales as well. Electronic Commerce generated an estimated $8 billion last year and is projected to generate over $300 billion in 2002.

Mr. President, we must not underestimate the benefits of such growth. It leads to the creation of new businesses and jobs. And while companies that do this well will reap tremendous rewards, consumers will be the ultimate winners. They will benefit from the convenience and efficiency of electronic commerce. Furthermore, growth in Internet sales will lead to increased competition, bringing consumer choice and lower prices. I, therefore, believe it's vital that we protect this emerging industry.

By placing a two-year moratorium on Internet access tax and discriminatory taxes on electronic commerce, the Internet Tax Freedom Act is a strong step in the right direction. I understand that many businesses may not have the resources or may choose not to engage in Internet sales. This bill doesn't discriminate against these companies by creating a tax haven for their competitors. It applies only to those taxes which specifically target the Internet. It, in effect, prevents discrimination against companies engaged in Internet sales.

Mr. President, the Internet Tax Freedom Act is a bipartisan bill which will ensure the vitality of our nation's electronic commerce. Today, I offer my full support for this commonsense legislation.•

STUDENT LOAN FLEXIBILITY

• Mr. GREGG. Mr. President, if I could have the attention of the distinguished chairman of the Committee, Senator JEFFORDS, I would like to engage him in a brief discussion of a proposal that was raised during Senate consideration of the higher education reauthorization bill.

As the chairman will recall, the managers' amendment offered during Senate consideration included sense-of-the-Senate language regarding the need for greater flexibility in federal student loan programs. Specifically, there were some of us interested in increasing the annual limits on unsubsidized loans while maintaining the aggregate limits, so that students could take greater advantage of federal loans available at lower interest rates. Unfortunately, a substantive amendment to advance that proposal was scored by the Congressional Budget Office (CBO) as increasing mandatory spending, and adequate offsets could not be found.

My purpose in raising this matter again today is to elicit from the chairman an indication of his support for this loan flexibility proposal on a substantive policy basis, in the hope that, if we can ever find the additional resources necessary to cover its costs, we might enjoy the chairman's support in pressing for its enactment.

Mr. JEFFORDS. Mr. President, I agree with the Senator from New Hampshire that one of the main obstacles to the adoption of the loan flexibility proposal was the cost implications raised by CBO. In fact, budget considerations prevented us from making a number of beneficial changes in the Act which I know members would have liked to have provided. I am favorably disposed to the loan flexibility proposal on a substantive policy basis, and I am willing to continue to work with the Senator from New Hampshire and other interested parties to gain its enactment.

Mr. GREGG. Mr. President, I very much appreciate the chairman's comments and his support and look forward to our continued work together.•

300TH ANNIVERSARY OF THE CITY OF PENSACOLA, FL

• Mr. MACK. Mr. President, I rise today in honor of the 300th anniversary of the City of Pensacola, Florida. Although November 21, 1998 will mark the 300th anniversary of the continuous settlement of Pensacola, the origins of Pensacola are much older.

In 1559, Don Tristán de Luna y Arellano led the first authorized attempt to colonize what eventually became known as Pensacola. The first attempt at colonization failed, however, and the Spanish were forced to withdraw in 1561. The Spanish did not attempt to colonize the area again until 1698.

Since 1698, Pensacola has flown the Spanish flag, the French flag, the British flag, the Confederate flag, and the American flag over the City. Each flag left its mark upon the City and their historical presence is still evident today. Pensacola honors its heritage each year with the Fiesta of Five Flags celebration.

The presence of the United States Navy has also had an impact upon Pensacola. In the 1820s, a Navy Yard was established in Pensacola. The Navy Yard was closed in 1911, but in a few short years Pensacola was selected as the site of a "Naval flying school." Today, pilots still seek flight training at the Pensacola Naval Air Station which has been called the "Cradle of Naval Aviation."

Pensacola's deep and sheltered bay, sugar white beaches, friendly residents, and Southern hospitality continues to charm visitors today. Over the past three hundred years, the community has hosted such visitors as General Andrew Jackson and entertainer Bob Hope.

On November 21, 1998, Pensacola will celebrate its 300th anniversary at the site of the former Spanish settlement which today is part of the Pensacola Naval Air Station. This historic event will be commemorated with a celebration which will include a parade and fireworks.

As a United States Senator from the State of Florida, it gives me great pleasure to wish the City of Pensacola a happy 300th anniversary. I wish the City of Pensacola all the best for a fun-filled celebration.•

COSPONSORSHIP OF S. 2426, THE UNIFORMED SERVICES FILING FAIRNESS ACT OF 1998

• Mr. ABRAHAM. Mr. President, I rise today to voice my support for Senate Bill 2426, "The Uniformed Services Filing Fairness Act of 1998." I believe this legislation will work to give much assistance to our men and women abroad in uniform. As we continue to ask for increased responsibilities from our servicemembers, let us not punish these same stewards with unfair tax return deadlines. Due to the remote deployment of many in the uniformed service, these tax deadlines become nearly impossible to meet. In my view, this presents the Senate with an opportunity to provide a measure of relief to servicemembers already stretched to their limits by those repeated and remote deployments.

In my view, this needed legislation is both fair-minded and fiscally responsible. I urge my colleagues to join me in cosponsoring this bill.•

SUBMITTING CHANGES TO THE APPROPRIATIONS COMMITTEE ALLOCATION

• Mr. DOMENICI. Mr. President, section 314(b)(1) of the Congressional Budget Act, as amended, requires the Chairman of the Senate Budget Committee to adjust the appropriate budgetary aggregates and the allocation for the Appropriations Committee to reflect an amount provided and designated as an emergency requirement pursuant to 251(b)(2)(A) of the Balanced Budget and Emergency Deficit Control Act.

I hereby submit revisions to the 1999 Senate Appropriations Committee allocation, pursuant to section 302 of the Congressional Budget Act, in the following amounts:

	Budget authority	Outlays
Current Allocation:		
Defense discretionary	271,570,000,000	266,515,000,000
Nondefense discretionary	255,634,000,000	266,414,000,000
Violent Crime reduction fund	5,800,000,000	4,953,000,000
Highways		21,885,000,000
Mass transit		4,101,000,000
Mandatory	299,159,000,000	291,721,000,000
Total	832,163,000,000	855,579,000,000

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June 1, 1998

Senator Jack Reed
United States Senate
320 Hart Senate Office Building
Washington, DC 20510

Dear Senator Reed:

I am writing to thank you for meeting with me last week and to follow up on or discussion about the need for added flexibility in the annual loan ceilings for the Federal Stafford loan programs. Due to the existing annual borrowing limits increasing numbers of needy students have no choice but to borrow from private loan programs that are more expensive and more difficult to repay than even Federal unsubsidized loans. As I mentioned, The College Board estimates that students borrowed approximately $1.2 billion in 1996-1997 from these alternative private sector programs.

During our conversation you expressed particular concern about whether our proposal to allow increased borrowing above the annual Federal unsubsidized loan ceilings (but not above the cumulative Federal limits) would encourage institutions to reduce financial aid from institutional sources. It appears, however, from national survey data collected by the National Center for Education Statistics (NCES) that reductions in institutional aid would be counter to existing financial aid trends. The NCES data show that loans as a percent of the student aid budget have declined. Although calculated on a higher base, the ratio of loans to the average student aid budget declined from .350 in 1987-88 to .273 in 1995-1996 for both public and private institutions. This downward trend is also clear for four year private institutions. The ratio for this category of institutions dropped over this same eight year period from .230 to .186. Moreover, according to the College Board, over the last nine years institutional aid has more than doubled in constant dollars, growing from $5.157 million in 1987-88 to $10.432 million (preliminary) in 1996-1997.

At Harvard, as you can see from the attached pie chart, students are typically asked to borrow 12% of the total aid package, while scholarships make up 49% of the package. Seventeen years ago, students were asked to borrow 15% of the total aid package and scholarships amounted to 43% of the total. Also, as you may know Harvard provides approximately $10.00 of institutional grant aid for every $1.00 in Federal grant aid awarded to Harvard students, totaling more than $42 million for 1998-1999.

To try to address your concerns about the costs of the proposal, I have enclosed a one page options paper that suggests modifications that might be adopted to scale back the cost as needed. A copy has already been sent to both Elyse and Marianna Pierce of Senator Kennedy's staff. We would be very willing to suggest necessary additional modifications should revised estimates reveal that the proposal is still too expensive to be included in the Senate bill to reauthorize the Higher Education Act. As you may recall, the existing CBO estimate is a bit of a puzzle since it attributes approximately two thirds of the total cost ($695 million over five years) to unidentified "interactive" costs.

Again many thanks for taking this issue under consideration and please let me know if there is additional information that I can provide.

Sincerely,

Nan

Nan F. Nixon
Director
Federal Relations

Attachments

cc: Elyse Wasch