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[Direct Lending - April 1993]

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 24, 1993

Memorandum for Maureen McLaughlin
David Longanecker

From: Barry White

Subject: Direct Loan Bill -- Galston Issues

Bill Galston called me today to discuss several issues on the bill. I've incorporated his other questions into my comments for Monday, but there are two major items I wanted to get to you more quickly. These arose in our (Maureen, David, me) discussion with Galston on the 21st.

I'm happy to discuss them with you. I think I have captured Bill's desires in the language suggested below, but I did not have a chance to get this to him to verify that. You should call Bill with major problems.

1. IRS Language, page 26.

Bill raised essentially the same point that Frank Newman is pursuing with respect to Sallie Mae: this bill should contain enough authority so that, if the two Secretaries figure out how to use the IRS, no more legislation is needed to implement it.

Here are some words that go to this. I haven't a clue what specific language Treasury/IRS will say they need, so your rewrite of this (Jack always rewrites me, for good reason) should get sent quickly to them for reaction. Also, the jurisdictional issue may or may not be exacerbated by this approach, so Kay and others need to see it; it should be high on our list of issues when we sit down with the authorizers before going final.

[note: the term "repayment options" can't be used to refer to what IRS is to do; it is used elsewhere for the options themselves. Thus the need for a new phrase.]

"(c) IRS PARTICIPATION AND OTHER METHODS FOR RECEIVING LOAN REPAYMENTS. -- (1) Not later than June 30, 1994, the Secretaries of Education and the Treasury shall develop a plan for the participation of the Internal Revenue Service in the method by which borrowers make payments on loans made under this part.

"(2) Upon agreement by such Secretaries on the plan and upon their determination that its implementation would further the purposes of this part, each such Secretary is authorized to take such actions as may be necessary to implement the plan.

"(3) The Secretary of Education may use such amounts as may be necessary from the funds made available under section 459 to implement the plan.

"(4) The Secretary shall make available to the Secretary of the Treasury such amounts as the two Secretaries deem necessary to implement the Treasury portion of the plan, from the funds made available under section 459.

"(5) The Secretary of Education and the Secretary of the Treasury shall also evaluate other methods by which borrowers under this part may make payments through other wage withholding mechanisms. The findings of the Secretaries shall be included in the plan required by subsection (1) and may be implemented with funds made available under this part, to the extent the Secretaries deem appropriate."

2. <u>Income contingency for non-direct loan borrowers through consolidation</u>, page 46.

The concern is still the degree to which borrowers of guaranteed loans between July 1, 1994 and June 30, 1997 can get into income contingency. Our approach to this is via the consolidation route. The paragraph beginning on line 12 appears to be the key paragraph.

As constructed, the borrower to whom someone offers income sensitivity (as the forthcoming regulations define it) in a consolidation loan has no recourse to income contingency. Those who can't get income sensitivity can approach the Secretary, but he does not have to give income contingency to him if he is not ready. This approach was to balance: (a) not taking loans away from current players in a way that will hasten their departure; and (b) not bringing the Secretary more direct loans than he has the capability to handle; and (c) still expanding the universe of income contingency eligibles.

The balance seems tipped to (a) and (b). Here is a substitute paragraph, with new language underlined with comment bolded. [At the meeting, we said the Secretary would offer the consolidatee the "full range of options", but I presume that was not done because the lenders already have to offer all but income contingency, so the only new thing to offer is income contingency. Right?]

"(5) In the event the borrower is unable to obtain a consolidation loan with income-sensitive repayment terms acceptable to the borrower **[the key for the borrower may be getting no minimum repayment or 25 year repayment, neither of which would be satisfied just by having repayment tied to income income-sensitive.]**, from a lender described in subsection (a)(1), the Secretary shall offer any such borrower who applies to the Secretary for it, a direct consolidation loan with income contingent repayment terms under part D of this title, except that the Secretary shall not offer a direct consolidation loan if in his judgement the Department of Education is not at the time yet ready to originate and service such loans.

c: Jack Kristy
Bill Galston

4 pages, including this one

To: Bill Galston
Gene Sperling

From: Ellen Seidman

Attached is an options paper — too long for the President, but it lays things out — on Sallie Mae. I thought it might be useful for the 10:30 meeting. I'm not sure the first part of the last paragraph is strong enough.
I'll be in at 8:45, but ~~proba~~ will leave soon after to go to Commerce unless you tell me to stay. I'll call Bill when I get in.

Ellen

P.S. Gene if you're still there, please don't call; I'm going back to sleep.

Issue: The future of Sallie Mae

With the advent of direct lending, the most profitable of Sallie Mae's businesses — holding of guaranteed student loans funded by Sallie Mae debt -- will eventually disappear. This has resulted in a substantial drop in the value of the company's stock since announcement of the decision to move to direct lending. Although Sallie Mae would likely increase its guaranteed loan holdings during the transition to direct lending (and therefore temporarily increase profitability) and the company has successfully built other businesses, such as loan origination and servicing, that would continue to be needed under the new regime, the company has led the opposition to direct lending. In so doing, it has alienated even its strongest supporters in Congress.

Sallie Mae would like the Administration bill to include a program for an orderly transition of the company to private status, effective when the direct student lending program became fully effective. As a private company after June 30, 1997, Sallie Mae would no longer have any of the benefits of its current government connection (which relate largely to the liquidity of its debt obligations and their exemption from state and local income tax) and would be able to engage in any lawful business. Sallie Mae feels inclusion of such a program would stabilize the stock, as well as prove that the government is a reliable partner when it creates government sponsored enterprises (GSEs) and other public/private partnerships and asks private investors, including many colleges and universities in this case, to invest in them. The Education Department is concerned that the student loan system — including the post-1997 vestiges of the guaranteed loan system -- may continue to need Sallie Mae's backup and support even after 1997 and a fully privatized Sallie Mae will not provide it. Several senior critical Hill staffers have warned that privatization may be regarded as a windfall to Sallie Mae and could hurt the bill.

Options:

1. Say nothing about Sallie Mae in the legislation.

This retains all options about what to do about Sallie Mae. However, it would probably result in maximum continued uncertainty and therefore maximum continued pressure on the stock, and could suggest that the government has neglected a major issue in developing the legislation. In addition, Sallie Mae will certainly continue sustained, vocal and effective opposition to direct lending.

2. State in the legislation that the Secretaries of Education and Treasury will do a six-month study of the future of Sallie Mae, and will propose legislation at the end of the study.

This shows that we are aware of the issue, but does little to reduce uncertainty concerning Sallie Mae. Sallie Mae would probably continue its opposition.

3. State in the legislation that the Secretaries of Education and Treasury will do a six-month study of how to privatize Sallie Mae now that its basic function of running a secondary market for student loans will end, and will propose legislation to privatize at the end of the study.

This limits the study to how to privatize, not whether, and will probably reduce uncertainty concerning Sallie Mae's stock, although it probably would not be sufficient to end Sallie Mae's opposition to direct lending. This option would foreclose consideration of Education concerns about whether privatization is appropriate at all, and it is unclear whether Hill staff would regard it as neutral. In addition, it forces a second round of consideration of the student loan issue — in the form of legislation on Sallie Mae -- within a year after passage of this legislation.

4. Include in the legislation sufficient legislative language to privatize Sallie Mae as of July 1, 1997, with conditions to (i) require Sallie Mae not only to continue its current activities prior to that time, but also to bid competitively on direct loan servicing contracts; (ii) require approval by the Secretaries of Education and Treasury of Sallie Mae's reorganization plan; (iii) allow Sallie Mae, with the approval of the Secretaries of Education and Treasury, to enter into new businesses during the transition, but to support such businesses only with retained earnings and non-GSE debt; and (iv) require the defeasance on July 1, 1997, of Sallie Mae's outstanding GSE debt, so that payment of such debt is guaranteed by a trust containing Treasury securities purchased by Sallie Mae for such purpose.

This would allow all legislation necessary to privatize Sallie Mae to be enacted as part of the student loan bill, but would (i) assure Sallie Mae's continued -- and increased -- support for the guaranteed and direct student loan programs during the transition; (ii) protect the government against any implied claim by holders of Sallie Mae's debt if the private company were, for any reason, unable to pay; and (iii) retain a good deal of authority by the Secretaries to shape the transition and the ultimate reorganization. Although Sallie Mae would prefer a more open-ended bill, in particular with the company allowed to make the choices as to new businesses during the transition, it would probably support this legislation as the best available, and therefore most likely to reduce the uncertainty in the stock.

5. Include the privatization legislation described in option four, but with a substantial "exit fee" payable by Sallie Mae to the government upon privatization.

The requirement for an exit fee would be based on the theory that, although all of Sallie Mae's equity has been privately contributed, the company's retained earnings and continuing advantages, such as the scale with which it operates, are in large part attributable to its GSE status, for which it should pay the government. This might satisfy Sallie Mae's Hill critics that the company has not achieved a windfall. Sallie Mae — and probably other GSEs -- would violently oppose this provision, as a breach of the implied agreement with stockholders that an investment in Sallie Mae, a company listed on the New York Stock Exchange, is an investment in a private company, and that the full risk of that investment, including retained earnings, belongs to the shareholders. The only time a similar confiscation of retained earnings of a GSE has been demanded was in connection with the bailout of the savings and loan industry, when retained earnings of the Federal Home Loan Bank System — which belonged to its savings and loan stockholders -- were pledged to repayment of some of the costs of the bailout.

The Treasury Department, DPC and NEC support the fourth option, privatization legislation in the bill but no exit fee, on the condition that Sallie Mae cease its efforts to kill the direct loan program. They feel that privatization is inevitable and appropriate given the end of the guaranteed student loan program, and an orderly transition, without the need to go back to the Hill for new legislation, is in the best interest of the government. The Education Department is (i) concerned that animosity toward Sallie Mae on the Hill means inclusion of such a program would seriously hurt the bill's chances of passage, no matter what Sallie Mae does with respect to direct lending; and (ii) uncertain whether ultimate privatization is in fact the right answer for the student loan program. The Education Department therefore supports the second option, the open-ended study.

Date: 4/28
Time: 9:20

THE WHITE HOUSE

FAX COVER SHEET

TO: Bill Galston

Phone: ( )

FAX: ( ) 2878

FROM: Ellen Seidman

Phone: (202) 456-2802

Pages following cover sheet = 3

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The requirement for an exit fee would be based on the theory that, although all of Sallie Mae's equity has been privately contributed, the company's retained earnings and continuing advantages, such as the scale with which it operates, are in large part attributable to its GSE status, for which it should pay the government. This might satisfy Sallie Mae's Hill critics that the company has not achieved a windfall. Sallie Mae -- and probably other GSEs -- would violently oppose this provision, as a breach of the implied agreement with stockholders that an investment in Sallie Mae, a company listed on the New York Stock Exchange, is an investment in a private company, and that the full risk of that investment, including retained earnings, belongs to the shareholders. Proposal of any significant fee would also probably result in a further serious decline in the stock price. The only time a similar pay out of retained earnings of a GSE has been demanded was in connection with the bailout of the savings and loan industry, when retained earnings of the Federal Home Loan Bank System -- which belonged to its savings and loan stockholders -- were pledged to repayment of some of the costs of the bailout.

To: George Stephanopoulos, Governor Kunin, Bill Galston, David Dreyer
Fr: Gene Sperling
Re: Income Contingent Loan Proposals
Dt: April 28, 1993

The President's income-contingent loan program is one of our most important domestic initiatives. While the discretionary domestic caps put pressure on all of our initiatives, the income-contingent loan proposals is our one major opportunity for the President to offer the a tangible benefit to every middle class and poor family while also demonstrating our commitment to economic growth through investing in people. Therefore we must ensure that this is presented in the most visible, comprehensive and memorable fashion.

1. It must have a name that people call this and is associated with the President.

2. It must be explained in a way that is simple, accessible and makes clear to the average student exactly how this will benefit them.

3. We need a summary sheet with five to six key bullets, with some stories about it would apply to an average people and Q&A on some of the likely questions.

4. We need to make clear that we have our rationale for the program and that we are all on the same page.

5. We need a long-term plan in which we get hundreds of thousands of brochures out to the colleges for the fall, explaining our new "accounts."

RATIONALE AND DESCRIPTION OF BENEFITS:

1. INVEST Accounts: We can best communicate the idea of income contingency by describing the notion of an individual account. The student creates an account by borrowing into is for college or training. Then he or she pays her account off with a percentage of their future income. The notion is that we allow everyone to invest in themselves, by borrowing for their education and allowing their income to pay off the investment.
If it is an "account" it will have the sense of an IRA in which the person is given something valuable that they own. In this case, it is an account from which they can borrow and only have to pay back as a payroll deduction and never as a bill.

It must have a name. I don't care what it is, but it needs something. One suggestion is an INVEST Account. Another is an EXCEL account which could be the EXCellence in Education Loan program. Once we have a name, we should stop refering to is as an income-contingent loan proposal -- an awful and bureacratic sounding term -- and start simply describing what we are offering every average American family through our new INVEST or EXCEL Accounts.

A key perspective that we must remember is that their is poor communication in this country as to what is available to the average middle class student. Even if we did not have a new proposal, we could have gained a lot of mileage by simply communicating what is available to people.

We can use our new proposal -- income contingent loans -- along with an INVEST Account to notion, talking about how every one can have an INVEST account that includes all of these loan and grant options, we will be seen as delivering to people a lot more than just the income-contingent loan option.

2. EASY TO PAY SYSTEM: Students would not have to send monthly checks, making investing in your education just another bill to pay. The INVEST Program would allow deductions to be automatic through employer-withholding.

3. END OF CRUSHING DEBT BURDEN: Currently our education system often makes young people pay large amounts of debt just at the moment when young people have their lowest earning potential and the hardest time finding jobs. The INVEST Account program allows for each person to invest in themselves and pay it back as in proportion to their income so that paying back your investment in education is never a crushing burden.

4. ENCOURAGES PUBLIC SERVICE: We now have a system that amount to a regressive tax on public service. If a young person owes $250 a month on their student loans and goes into a high paying job that pays $5,000 a month, they are paying 5% of their income on paying back their loan. Yet, if that same student goes into teaching in a poor neighborhood for $1,800 a month, that same young person will be paying 12% of their income. That is operates exactly the same as a regressive tax on public service. With an income contingent loan -- and Invest Account -- every young person would pay exactly the same percentage.

5. HEALTH CARE: YOUNG DOCTORS IN POOR AREAS: In health care, we have talked how young doctors cannot be convinced to serve in low-income areas after Medical school because of the high costs of their loans. Yet, income contingent loans allow them to

6. ENCOURAGE ENTREPRENEURIALISM: Our current loan system can discourage entrepreneurial behavior. Where a young person out of school faces fixed student loan costs, that creates a disincentive to take high risks -- like entrepreneurial activity -- where a person may make little money in the short-term in pursuit of larger rewards in the future.

THINGS TO BE DONE BY FRIDAY: I don't know what is in the works, but here is what I believe must be done in the next 36 hours.

1. Come up with a name for an account.

2. Do a Fact Sheet, i.e., "THE INVEST ACCOUNT." There should be a summary page of the main highlights -- which should be bulleted in categories that would make it easy for a reporter to do a "box" on the plan and for news editors to do bullets on the evening news.

3. Attached to the Summary Sheet should be three additional pieces of paper.

A. More in-depth discussion of the program
B. An example of how it would work for Johnny and Jane Average.
C. Common Questions with the answers. ("What will happen if a rich person borrows and then never works?")

4. Get the name and rationale clear and simple and into the speech.

5. I also think that we need to have ready a few top people with credibility in Congress and the education community ready to take calls from reporters.

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Direct Government Lending

The Bottom Line

A Critique of GAO's Report

on Guaranteed Student Loans

Versus

Direct Lending and

Revised Savings Estimates

Prepared by

Perry D. Quick,
National Director,
Tax Analysis and Economics
Ernst & Young
Washington, D.C.
Spring 1993

STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007-3871
202-298-2500

Harry R. King
Chairman of the Board

April 22, 1993

The President
The White House
Washington, DC 20500

Dear Mr. President:

Sallie Mae (Student Loan Marketing Association), a federally chartered corporation, is required by law to report annually on its activities to the President and Congress. I am pleased to provide this report on the corporation's activities in 1992.

Throughout the year, the Federal Family Education Loan Program (FFELP or, previously, the Guaranteed Student Loan Program), for which Sallie Mae provides funding and operational support, continued to generate a readily available flow of education credit to millions of college students and their parents. During the year, banks and other private-sector participants in this program successfully delivered more than $14 billion of education loan funds to five million students and parents. These funds--provided by more than 8,000 lenders throughout the nation--helped make it possible for students of every age and background to attend nearly 10,000 public and private postsecondary institutions all across the country. The year's activities brought the total amount of private capital provided through this program during the past 25 years to more than $142 billion--representing education funding for more than 35 million borrowers.

In 1992, Sallie Mae continued to provide the major source of financing for loans originated under the FFELP and the federally-sponsored Health Education Assistance Loan (HEAL) Program. We provided lenders with $8 billion in new capital for making student loans, or financing for more than three million student and parent education loans, bringing our investment in education credit to $46 billion at year-end. Assistance to the higher education community also included more than $360 million in new financing provided or supported by Sallie Mae to 40 colleges and universities for funding their plant and equipment needs. These activities brought our total facilities financings by year-end to more than $2.5 billion to 180 institutions in 38 states.

During the year, Sallie Mae also continued to invest substantially in the human and technological resources that enable us to provide the highest quality service and assistance to the more than five million borrowers whose student loan accounts are serviced by Sallie Mae's regional student loan servicing centers or by others on our behalf. In the past year, we opened or broke ground on more than 350,000 square feet of new space at our centers, added more than 600 employees, intensified employee training, increased the number of senior supervisory staff available to customer service employees, and expanded our centers' centralized mail processing facility.

In 1992, more than 43,000 borrowers turned to Sallie Mae's loan consolidation plan, the SMART LOAN[R] Account, to help make loan repayment easier in the early years of repayment. This brought the number of borrowers who thus far have consolidated their loans with Sallie Mae to more than 200,000. To assist colleges and universities in conducting sessions with borrowers to help them understand their loan obligations both at the time they first borrow and just before graduation, Sallie Mae developed an array of loan counseling materials that can be used in this process by school financial aid administrators, including entrance video tapes, payment amount calculators, and booklets on how much to borrow. Continuing our initiatives to make the repayment experience easier, Sallie Mae introduced, in November, 1992, the Great Rewards[SM] Program, the first national repayment program that rewards borrowers for making on-time payments on their Stafford student loans in the early years of repayment by significantly reducing their interest rate in the later years. To help more borrowers qualify for Great Rewards, we are piloting a direct debit program through which borrowers will be able to authorize automatic monthly loan payments from their checking accounts.

During 1992, Sallie Mae also actively participated in the extensive public discussion and debate that culminated, in July, in the signing into law of the Higher Education Amendments of 1992 (HEA-92), which reauthorized most of the nation's higher education programs, including the FFELP. The enactment of HEA-92 significantly strengthened the FFELP by expanding the program to ensure universal loan access to all postsecondary education students, increasing the amount of education credit available to individual students and parents, establishing new measures to reduce the government's and taxpayers' exposure to default risk, and streamlining the program to make it less complex for all participants. Sallie Mae made the enhancements to its loan servicing systems needed to accommodate purchases of the new type of unsubsidized Stafford loan authorized by HEA-92 by October 1, the effective date to assure availability of credit, through client lenders, to students nationwide.

Passage of HEA-92, as you know, was preceded by extensive public debate about how to improve student aid delivery and whether to replace the established bank-funded program with an entirely new direct loan program administered by the Department of Education and funded by the U.S. Treasury. To resolve the direct lending debate, policy-makers included in HEA-92 a provision for a four-year, direct loan pilot program to afford a practical basis--the test of time and experience--by which to assess and compare the relative efficiency of direct lending with that of the established public-private partnership in delivering education credit to students and parents. We believe that it is in everyone's best interests to implement and complete the pilot program before acting to replace a proven, reliable, private-sector-based program with a new, untested federal loan program.

Your Administration's proposed economic package, introduced in February, 1993, calls for a number of student loan reforms, including the phasing in of direct lending by 1997, to reduce the cost of student loans to taxpayers and to improve service to students. Sallie Mae fully supports your goals of easier loan repayment for students and lower costs for taxpayers, but we believe that the established program provides the best vehicle for achieving them. While several studies by various agencies indicate that direct lending would be less costly to taxpayers, we continue to believe that such savings are illusory--resulting from budget scoring convention which fails to include most of the administrative costs of delivering and collecting loans to millions of borrowers each year and which shifts many program costs and risks from banks to schools, students and taxpayers.

It is Sallie Mae's conviction that real cost-savings and service enhancements in student loan delivery can best be achieved by reforming and streamlining the established program. In early April, 1993, we submitted a package of proposals to your Administration and Congress which we believe can achieve the more than $4 billion in savings in the FFELP and accomplish the service delivery objectives that you and Congress are seeking. The proposal includes a market-based device to establish the yield to lenders on FFELP loans, thus assuring that the government never has to pay more than the minimum required to get private lenders to provide, distribute, and collect the loan funds. It would also increase the amount of credit risk borne by lenders and guarantors, reduce borrower defaults through a new "income contingent" repayment program available to all borrowers, and reduce payments to guarantors for collecting defaulted student loans and for certain administrative costs. In addition, we recommended establishing a new, bank- and guarantor-financed data clearinghouse, which would significantly reduce schools' administrative responsibilities.

In coming months, there will be continued public discussion and debate about replacing the established, privately-funded student loan program with a federal direct lending program. We believe that the kinds of service enhancements we and other program participants have continued to make testify to the ability of the private sector to deliver the most efficient service--at the least taxpayer cost--to students and schools. We welcome the opportunity to demonstrate our ability to help meet the nation's need for postsecondary education credit as compared to that of a direct student loan pilot program. The results of that test should give you a sound basis for charting the future of the nation's student loan program.

Respectfully yours,

Harry R. King
Chairman of the Board

Enclosure

SMART LOAN[R] is a registered service mark and Great Rewards[SM] is a service mark of the Student Loan Marketing Association.

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BARRY WONG, HIGH SCHOOL TEACHER

AS A SECONDARY MARKET,

SALLIE MAE COUNTS ITS BANK CLIENTS

IN THE HUNDREDS, AND ITS SCHOOL

CONSTITUENTS IN THE THOUSANDS —

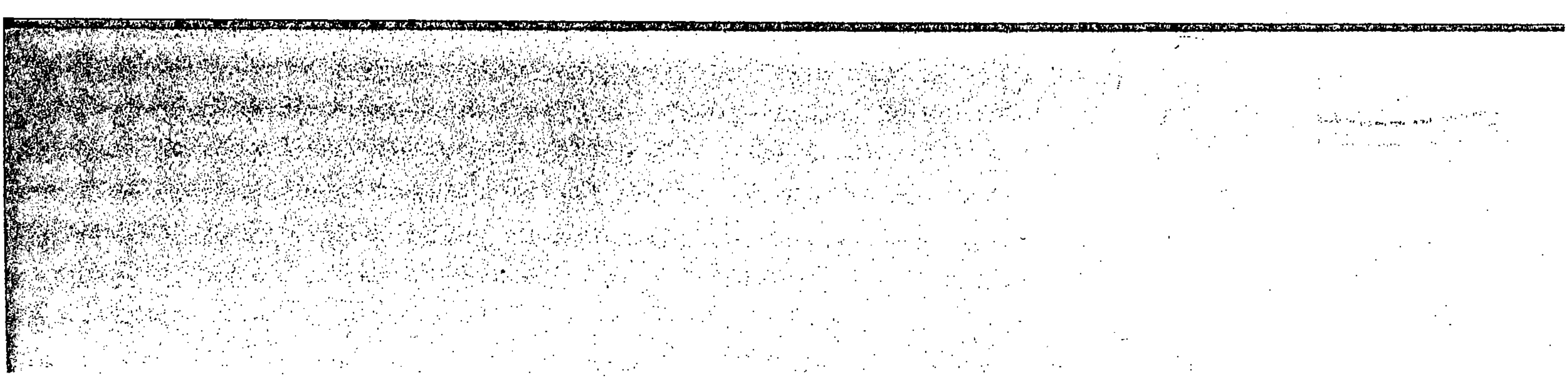
BUT...

ITS ULTIMATE CUSTOMERS,

EDUCATION LOAN BORROWERS,

NUMBER IN THE MILLIONS.

MESSIAH COLLEGE BS BIOLOGY, 1991



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Student Loan Program Simplification: Interim Recommendations

A Report of the
Advisory Committee on
Student Financial Assistance

April 1993

COMMITTEE FOR EDUCATION FUNDING

MEMORANDUM

TO: BILL GALSTON
DOMESTIC POLICY COUNCIL

FROM: RICHARD A. KRUSE, PRESIDENT

RE: CEF LETTER ON THE STIMULUS PACKAGE

DATE: APRIL 30, 1993

For your information, enclosed you will find a letter from the Committee for Education Funding that was sent today to the President.

505 Capitol Court, NE • Suite 200 • Washington, DC 20002 • (202) 543-6300

THE COMMITTEE FOR EDUCATION FUNDING

1993 CEF Executive Committee

RICHARD A. KRUSE
National Association of Secondary School Principals

DAVID BAIME
American Association of Community Colleges

CARNIE C. HAYES
Council of Chief State School Officers

ARNOLD L. MITCHEM
National Council of Educational Opportunity Associations

BETH B. BUEHLMANN
California State University

JOHN B. FORKENBROCK
National Association of Federally Impacted Schools

PATRICIA M. HAWKINS
National Association of College Admission Counselors

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BRET LOVEJOY
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JANE WELLMAN
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EDWARD M. ELMENDORF, Ex-Officio
American Association of State Colleges and Universities

EDWARD P. KELLER, Ex-Officio
National Association of Elementary School Principals

ALFRED D. SUMBERG, Ex-Officio
American Association of University Professors

COMMITTEE FOR EDUCATION FUNDING

April 30, 1993

The President
The White House
Washington, DC

Dear Mr. President:

On behalf of the Committee for Education Funding, we would like to thank you for including vital education investments in the your economic stimulus package. Had the Republican filibuster not been successful, we are confident that a final vote on the economic stimulus package would have resulted in successfully investing in jobs and educational opportunities for our children, youth, and adults.

However, we would like to register our extreme disappointment that, in attempting to craft an amended package agreeable to a majority of the Senate, education and children's programs were among the first to be bargained away. This was especially discouraging because it was clear in the debate on the Senate floor that the education portion of the stimulus package was not at issue.

Failure of the stimulus package, along with the austere FY 1994 projections for education investment, constitutes a retreat from stated Democratic priorities for the nation. The needs of our nation's children and youth demand immediate action as state and local budget cuts and the failure to commit adequate federal funds translates into a denial of the American dream.

We call on you to take immediate action to reaffirm the Democratic party's commitment to the education of our students. This can be done only by passing a second supplemental that includes the education investments that were lost in the failure of the economic stimulus package and by allocating substantially larger portions of the $1.5 trillion federal budget to the educational opportunity of our future generations. The recommitment to allocate $735 million to the Chapter 1 program, while eliminating the September 30th cutoff date for spending these funds, would ensure that collaborative efforts already in place to provide services to disadvantaged children would be realized. In addition, the Federal Pell Grant shortfall must be addressed outside of the FY 1994 budget caps and such action must not jeopardize the FY 1994 education investment.

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It is time for change. It is in the allocation of our national resources -- not in promises, but in spending decisions -- that we demonstrate our national priorities. In the weeks and months ahead, the education community will be looking to you for your leadership, in working with the Congress, on the FY 1993 and FY 1994 appropriations bills to achieve the goal of making education a top investment priority.

Sincerely,

Richard A. Kruse

Richard A. Kruse
President