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Hope Scholarships [1]

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OPTIONS FOR ENHANCING FEDERAL GUARANTEE TO ALL AMERICANS
TO INVEST IN POST-SECONDARY EDUCATION AND TRAINING THEY CHOOSE

1. Baseline Package of Federal Resources for Families and Individuals

- \$2900 Pell Grants -- with actual amount based on family income, savings. Difficult or arbitrary use in practice adversely affects three groups: independent students, dislocated workers b/c no prospective income test, and non-degree training. Also, subject to vagaries of annual appropriations, which means that amount of grant falls behind median tuition costs when not the highest priority of a sitting President who can enforce his will on Congress.
- Student Loans -- much more conveniently available, with more affordable repayment, including a Pay-As-You-Earn option. [N.B.: We should take credit for all reforms in practice -- including the savings and increasing competitiveness and convenience of GSLs -- of Direct Lending.]
- Dol Training -- a hodgepodge of federal-, state- and local-contracted training programs for dislocated and low-income workers. President in G.I. Bill for America's Workers has already argued that this crazy-quilt of training programs doesn't work and all of the adult training dollars should be consolidated into an individual Skill Grant of \$2600 so that dislocated and "underemployed" workers who can't find new jobs with their current skills can invest in learning the skills they choose to find new and more rewarding work.

2. Current Package of Proposals

- \$1500 refundable Hope Scholarship, \$10,000 Education and Training Tax Deduction and Expanded IRA. However, refundability of Hope Scholarship presents problems in coordinating with Pell Grant, doesn't get cash into hands of family until year after family spends money on tuition, and doesn't add much purchasing power for low- and moderate income persons compared to Pell Grants; and Hope Scholarship does not solve limitations in Pell Grants described in 1 above.
- \$2600 Skill Grant in G.I. Bill for America's Workers for Underemployed and Unemployed Workers. However, last year the House and Senate authorizing committees and Conference Report rejected individual Skill Grants and substituted devolution to states of DoL adult training dollars, with each state having discretion to use state-local contracting for training services or individual skill grants designed as state chooses. Authorizing committees offered no federal guarantee of any kind for enhanced purchasing power of education or training for individual families and are unlikely to be any more supportive this year -- *unless the President finds a way to elevate the issue in a new and major way.*

3. New Proposed Package for enhancing Federal Guarantee of support for families to invest in education and training they choose. Budget Premise=use \$5.5 billion in 5-year budget savings from eliminating refundability and simplifying Hope Scholarship; and move all of the individual purchasing power of Pell Grants and most of DoL adult training appropriations to mandatory side of the Budget. There is also an additional \$2 billion in

budget savings from Student Loan reforms, for a total of \$7.5 billion in available savings.

- Expanded and More Flexible Pell Grants:

Increase Proposed FY98 Discretionary Amount from \$2900 to \$3000, the median cost per year of college). *Net Budget Increase Cost = \$1.5B.*

Solve "Independent Student" issue. *Net Cost=\$3.9B*

Solve "Prospective Income" issue for dislocated workers. *Net Cost=\$1.0B*

Solve "Non-Degree" training issue. *Cost=\$5.0B* (although this is very uncertain b/c we don't have a handle on the extent to which this would be used). This cost could be entirely offset by moving a portion of JTPA training \$\$ to mandatory side (just as we are proposing for Pell Grants!) *Net Cost=\$0*

- Dislocated Worker Hope Skill Credit or Hope Skill Grant of \$3,000:

The impact of this net increase in purchasing power would be limited to class of workers actually dislocated from paying jobs by their employers whose "prospective income" is still too high for Pell Grant and who can't find a new job after 12 weeks of job search as certified by U.I. or One-Stop; and for most of this limited class, net increase in cost would be a maximum of \$1500 per person. *Cost=\$3.5B* (although this is a little indeterminate b/c interaction with Pell Grant and Hope Scholarship is not yet entirely clear) This cost could be entirely offset by moving JTPA training \$\$ for such dislocated workers to mandatory side (just as we are proposing to do with Pell Grants!) *Net Cost=0.*

Total Net Budget Cost= \$6.4B less Net Budget Saving of \$7.5 yields

Net Budget Cost=\$0 or savings!

4. Pros vs. Cons

- Pro: This will guarantee for a generation to come that President's promise of federal support for every family, worker, and student to invest in education and training they choose -- not just for first two years of college, but also for all post-secondary lifelong learning -- is embedded in a balanced budget reconciliation agreement. In so doing, it will *also* implement the President's proposal for a G.I. Bill for America's Workers *without having to seek any legislation from reluctant if not hostile authorizing committees!*

Con 1: This is a new entitlement that will explode the deficit in the out-years.

Con 2: This will require cuts elsewhere in Budget.

Con 3: This will put existing DoL training programs or POTUS-proposed Skill Grants at risk.

Discussion: This is a fight well worth making. First, the chances for a major victory -- for POTUS and for all Americas -- *in the context of a budget that actually balances on CBO scoring* -- are quite high if POTUS wants to fight for this priority. In fact, this proposal

would substantially enhance POTUS hand: (a) by elevating this issue to a paramount Presidential priority and highest national visibility and (b) by building support among virtually all D's (and, behind the scenes, at least, maybe even moderate R's who want to assure investment in post-secondary education and training) and major constituencies (including organized labor, entire education community, and much of enlightened business leadership) who will join with POTUS to fight for this federal guarantee of post-secondary education and training in the context of balancing the budget. The President's own balanced budget proposal, his actions in achieving a balanced budget agreement, and his commitment to whatever Bi-Partisan Commission he may convene to deal with "longer-term" Social Security and Medicare/Medicaid issues will make clear that the President is committed to a budget framework that will work to achieve balance -- and not explode the deficit -- for a generation to come. *Establishing such a new balanced budget framework -- including the federal guarantee to all American families, students and workers of resources to invest in the post-secondary education and training they choose -- provides the substance for a powerful Second Inaugural Address: the President's vision for empowering ordinary Americans to lead an extraordinarily rewarding crossing to a new age of discovery and renewal.*

Second, the President will be submitting a complete new budget that balances and then bargain for a balanced budget agreement in the context of many variables that are not included in his proposed budget (e.g., C.P.I., size of economic bonus for balancing the budget, additional revenues within budget window from capital gains cut and further eliminations of "corporate subsidies," and other proposed restraints on growth in Medicare, Medicaid, and SSI and Disability). Any "con" of requiring "cuts" elsewhere in our budget is, therefore, largely irrelevant at this stage of consideration: this is the type of choice that POTUS should have before him when he makes decisions on major presidential priorities (which this surely is) and budget trade-offs. *But the budget trade-offs here are not total \$\$ nor trade-offs between competing Presidential priorities; here the actual budget trade-offs are of two different kinds: (1) refundable tax credits v. mandatory grants; and (2) mandatory investment v. discretionary appropriations. This proposal is "budget-neutral."*

Third, the DoL discretionary appropriation for training programs is already at risk: in our G.I. Bill proposal, the President has already led the charge in arguing that the current crazy patchwork of DOL programs with federal-state-local contracting of training is just plain wrong-headed and that the \$\$ should all be consolidated into purchasing power directly in the hands of individuals through a \$2600 Skill Grant. *Therefore, what's really at risk if we don't include "skill grants" for training in our proposed mandatory package is the President's whole proposal of individual Skill Grants before unfriendly authorizing committees.* In fact, this proposal to tie education and training together as mandatory investments *actually strengthens our hand on any negotiations on similar changes to Pell Grants and to fight for the President's real G.I. Bill for America's Workers if we lose with the Congress on this issue in Budget Reconciliation and are forced back bargaining with the authorizers and appropriators on the discretionary side!* And, if the mandatory proposal succeeds in the Budget Reconciliation, then DoL can concentrate on building the foundation for labor market information and exchange (Job Bank, Talent Bank, Labor Market Information System, Interactive Training Network and One-Stops) that permit job-seekers, employers looking for workers, and job placement intermediaries to find and add their own value -- *without the*

need for any additional authorizing legislation at all!

[N.B.: Of course, any such consolidation through individual grants -- like the consolidation through devolution proposed by Congressional authorizers last year -- puts most of the employees at DoL's ETA at risk of being "downsized": but we are in no position to argue that is a con rather than a pro. Indeed, the VP joined in major support of the President's proposed consolidation through individual Skill Grants as one of his most important and visible examples of real REGO.]

[N.B.: There is a very creative proposal for out-of-school-youth and young adults who don't have high school diplomas or are functionally illiterate that DOL could put into play on the authorizing side *with the support of governors and mayors*: a \$500 federal incentive to the State/locality for each such young person recruited to go back to a state/locally approved provider offering learning leading to high school diploma, marketable job skills and a real job upon completion, with another federal \$500 reward to State for every such person placed in a job for one year after completion. This could be modeled -- much like the School-to-Work transitional grants -- as a challenge competition to States (and localities/school districts) that elect to participate by putting up the rest of the \$\$ for such work-based learning leading to employment upon graduation. It is not necessary, however, to decide what if anything to propose with respect to DoL out-of-school youth/young adult training programs in order to decide this proposal for *post-secondary education and training*. The DoL out-of-school youth issues should be reviewed and considered in the context of the complementary proposal from DoEd for reforming the Perkins Act through the pending reauthorization: *Ken and Barry should advise the timing and nature of any budget issues on DoL out-of-school youth and Perkins reauthorization that need to be resolved.*]

- Pro: This will assure that individual grants are provided up-front to low- and moderate-income families, students and workers who choose to invest in education and training without the administrative, tax policy and six- to 18 month delay in receiving "refundable tax credit."
Con: ? [I don't think there is a "con" here, except possibly a tacit admission that "refundability" of tax credits generally is mandatory "spending" rather than a "tax cut" (which might hurt our rhetoric, but does it really hurt the budget scoring and budget terminology for EITC?)]
 - Pro: This will assure that all American families, students and workers know that they will have federal guarantee of support not only for first two years of college, but also for all post-secondary education and training they choose.
Con: This may dilute message of making "first two years of college" or "years 13 and 14 of schooling as universal as K-12 public schooling" by extending federal guarantee of support (a) to all lifelong learning and (b) including training for dislocated, "underemployed" workers, and low- and moderate-income families -- as well as college education -- for "learners" of all ages.
- [Discussion: I just don't "get" this con at all. Someone else will have to put together the arguments on this.]

HOPE/PELL Policy Options

5-year (1998-2002) estimates
(\$ in billions)

Tax credit/deduction:	\$32.3
Simplification:	-1.5
Eliminate refundability:	<u>-4.0</u>
Net Cost:	27.8

Tax savings available: 5.5

Options for tax savings:

Pell independent student fix to
offset loss of refundability: 4.0

Pell "prospective income" accounting
change to allow more dislocated
workers to use Pell: 1.0

Increase Pell Grant maximum \$35 .5

Increase Pell Grant maximum \$100 1.5

HOPE Scholarships and Pell Grants

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- \$4 billion of the cost is for refundability, which is essential to reaching poor students (particularly *independent* students now ineligible for the Pell Grant). Treasury concerned that refundability adds to potential for fraud.
- Refundability can be eliminated if comparable benefits are provided to the poorest students in another way -- through Pell Grants.
- If refundability is eliminated and simplification is adopted, savings would total \$5.5 billion 1998-2002.

Bringing low-income independent students into Pell

- Refundability can be eliminated only if those who would have benefited are brought into the Pell Grant system.
- Independent students can be brought into the Pell Grant system at a cost of about \$4 billion over five years, which addresses the bulk of the refundability benefits issue.

Using "prospective income" for dislocated worker Pell Grant eligibility

- Some dislocated workers are shut out of the Pell Grant system because their prior year income -- used to determine financial aid eligibility -- is too high.
- Current law allows colleges to give dislocated workers special consideration, using projected current-year income to determine eligibility. But dislocated workers do not know that they can ask, and colleges need not cooperate.
- Requiring the use of projected current-year income for dislocated workers would cost roughly an additional \$1 billion over five years.

Opening Pell to non-degree, non-certificate students

- Pell Grants are only available to students in degree or certificate programs.
- Eligibility could be expanded for other students (for example, a worker being trained how to use a particular computer program).

- Rough estimates suggest a cost in the range of \$5 billion over five years, which is not affordable through Hope savings. These students are eligible for JTPA, which will, if more independent students are made eligible for Pell, be freed up to better serve this population because of the migration of the other students to Pell.

Increasing the Pell Grant maximum

- After spending \$5 billion total over 1998-2002 to bring independent students into the Pell Grant program and to figure dislocated worker income on a current-year basis, there is \$500 million of the savings (over five years) still available for other purposes.
- The remaining savings could buy an increase in the Pell Grant maximum of perhaps \$35 in FY98 with inflationary increases in the out years.
- If the “prospective income” change (costing \$1 billion over five years) was not made, there would be a total of \$1.5 billion available, which would pay for a \$100 increase in the Pell Grant maximum (with inflation increases in the out years).

Making Pell Grants an entitlement

- The “fix” for independent students and an increase in the Pell Grant would help address the concerns of some in the higher education community about the Hope proposal.
- In reducing tax benefits, the fix will only be viewed as credible by the higher education community if the Pell Grant is turned into an entitlement, giving the program the same importance and permanence as Hope.
- Creating a new entitlement would be controversial and would be seen as encouraging higher spending over time.
- While the Pell Grant *increases* outlined above would be PAYGO offset by reductions in HOPE, the increase in mandatory spending represented by moving the *current* Pell Grant program would be offset by reducing the discretionary caps. While OMB has supported the reduction of discretionary spending caps as an offset for PAYGO, CBO and the Budget Committees have not.

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Improve Pell Grant formula for Independent Students

Pros:

- More equitable than current law
- Supported by parts of higher education community
- Helps some dislocated workers

Cons:

- Large cost for no apparent increase in maximum grant

Make Pell Grants mandatory

Pros:

- Remove funding uncertainty
- Place program on same footing as HOPE
- Send clear signal to needy students
- Enthusiastic support from higher education community

Cons:

- Expose Administration to charge of fiscal irresponsibility for creating a new entitlement program
- Costs less controllable; annual rationing process has kept program costs down

Include Non-degree Students

Pros:

- **Benefits many working people and dislocated workers**
- **Encourages lifelong learning**

Cons:

- **Increases cost by perhaps \$1 billion per year**
- **Increases gatekeeping needs**
- **May be opposed by some segments of higher education community**

Use prospective income for dislocated workers

Pros:

- Expand student aid benefits for dislocated workers
- Relatively easy to implement

Cons:

- Increases costs
- Complicates financial aid form
- Other groups will seek comparable treatment (e.g. displaced homemakers, families with private el-sec costs)

December 11, 1996

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND *FD*

SUBJECT: POST-SECONDARY EDUCATION VOUCHERS

CC: LAURA TYSON
BRUCE REED
KEN APFEL
BARRY WHITE

I hereby appeal from the public execution by you of me on this topic last evening. I apologize if my unartful elocution leading up to your tentative decision was inadequate to present the basic issues for decision. So, I'll try one more time.

Undisputed Facts:

- All Americans regardless of Age or working status. The more flexible, mandatory Pell Grant (with the three proposed modifications and increase in amount), the Hope Scholarship, the Education Tax Deduction and Pay-As-You-Earn student loans will -- if enacted in a balanced budget reconciliation agreement -- guarantee for a generation to come that every American student, worker, and dislocated worker has access to a substantial federal financial "voucher" to invest in the education and training they choose to earn a better standard of living through learning more to engage in more rewarding work. *This is the means to achieve the fundamental legacy so eloquently articulated by the President: to empower every American with the key to unlocking the door to the greater rewards and challenges of upward mobility and rising middle-income living standards in the information age at the dawn of the new century.* As a result, this is fight worth making -- and winning -- whether called a "new mandatory investment" or "a new entitlement." As you so rightly noted, that's the kind of fight we should relish in the context of achieving fundamental agreement on a framework for balanced budget.
- Dislocated and Disadvantaged Workers. Achieving this historic Presidential legacy through such a balanced budget reconciliation agreement will *also assure a flow of federal funds through such individual purchasing power -- "Skill Grants" if you please -- to "unemployed and underemployed workers" in amounts that dwarf the comparatively small appropriated dollars that can be achieved if we secure the authorization and appropriation of the \$2600 federal Skill Grant that was the sole presidential centerpiece in his proposed G.I. Bill for America's Workers.* Stated

another way, the need for passing a G.I. Bill for America's Workers to provide "Individual Skill Grants" for dislocated and disadvantaged workers is rendered moot if we achieve what we are proposing in a balanced budget agreement.

Basic Tactical Issues on G.I. Bill for America's Workers:

- Whether and How Declare Victory. If we don't need an authorization and appropriation to achieve the President's legacy of "individual Skill Grants" for "unemployed and underemployed workers," then we need to decide whether and, if so, how we should declare victory on this front if we achieve the balanced budget reconciliation. That is the only reason I suggested a Hope Skill Credit (or a mandatory Skill Grant) for dislocated workers -- to gain support among the organized labor constituency and to broaden public recognition of the universal nature of the President's legacy. If there are more adroit ways to broaden political and popular support and to declare victory for the President's legacy, *I will gladly defer.*
- Relevance to DoL Training Appropriations. *Whether or not such a mandatory Dislocated Worker Skill Credit or Skill Grant is added to the mandatory budget reconciliation, John Kasich -- like most others -- will quickly grasp two things: (1) our mandatory proposal provides post-secondary education and training vouchers for everyone (including dislocated and low-income workers), and (2) any other federal budget support for other post-secondary training is either (a) largely redundant or, worse, (b) will serve to continue what all parties have already agreed is a largely ineffective, crazy-quilt pattern of federal categorical post-secondary education and training services contracted by states or localities. I can't believe that the President, Vice-President, or even the resigning Secretary of Labor will ultimately see the matter any other way: because these three leaders -- particularly the President -- initiated, led, and fought the fight for an individually empowering, market transformation of all federal assistance for post-secondary education and training.*
- Relevance to achieving Balanced Budget Reconciliation Agreement. Thus, the only issue concerning a G.I. Bill for America's Workers is whether we should propose it again as part of the *tactics* to achieving the President's real legacy of assuring individual purchasing power for all Americans through the mandatory budget reconciliation. I don't claim to understand or know the answer to this issue, but I hope that your deeper understanding of the budget, media, congressional, constituency, and public support will enable you to do so -- *once you focus on this issue.*

All other issues in the G.I. Bill for America's Workers -- labor market exchange, labor market information, state-local-private sector roles, vocational education, out-of-school youth, School-to-Work, achieving literacy or earning a high school diploma that means something -- can be considered and resolved once you help the President decide the prior and paramount issue: *how best to achieve the President's historic legacy of assuring that every American worker, student and family has direct access to federal assistance to invest in the post-secondary education and training they choose.* Please don't be misled by my unartful elocution or the self-interested, knowing or unintended obfuscation of anyone else.

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Increasing the Pell Grant maximum

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- In reducing tax benefits, the fix will only be viewed as credible by the higher education community if the Pell Grant is turned into an entitlement, giving the program the same importance and permanence as Hope.
- Creating a new entitlement would be controversial and would be seen as encouraging higher spending over time.
- While the Pell Grant *increases* outlined above would be PAYGO offset by reductions in HOPE, the increase in mandatory spending represented by moving the *current* Pell Grant program would be offset by reducing the discretionary caps. While OMB has supported the reduction of discretionary spending caps as an offset for PAYGO, CBO and the Budget Committees have not.

Credit--Current Parameters	Credit--Simplified Parameters
Maximum \$1500 credit per academic year for full-time enrollment (e.g., for two semesters, or three quarters), maximum \$750 credit per academic year for at least half-time enrollment, maximum \$3000 lifetime.	Maximum \$1500 credit per calendar year (regardless of whether enrolled half-time or full-time). Credit available twice in student's lifetime.
Taxpayer must choose between a credit or deduction for each academic period. Can claim both a deduction and a credit for the same student in the same year.	Taxpayer who is eligible to claim the credit for a student cannot claim a deduction for the student.
Credit available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between \$80,000 and \$100,000	Same
Credit is only available for tuition paid during taxable year for an academic period during which the student is enrolled least half-time in a degree or certificate program in the taxable year or beginning in the first three months of the next taxable year.	Credit is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year)
Credit is available only for tuition paid for academic periods before completion of second post-secondary year of education.	Credit is available for any tuition paid during taxable year in which student is enrolled in one of first two years of post-secondary education).
Maximum credit is reduced by federal grants.	Same
Amount of credit limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
Must earn B- GPA in 13th year to qualify for credit in 14th year.	Must obtain a B- GPA for all post-secondary course work begun in prior years
Must not have felony drug conviction	Same

Deduction--Current Parameters	Deduction--Simplified Parameters
Maximum \$10,000 deduction per family per year.	Same
Deduction limited to tuition and required fees actually paid (e.g., less all grants and scholarships).	Same
To claim the deduction, the student must be enrolled at least half-time in a degree or certificate program or taking course to improve job skills.	Deduction is available for any tuition paid during taxable year if the student is enrolled at least half-time in a degree or certificate program for any academic period in current taxable year or beginning in first three months of next taxable year (provided tuition paid in current taxable year), or taking course to improve job skills.
Deduction available to parent if student eligible to be claimed as dependent. Otherwise available to student.	Same
Credit is phased out for MAGI of between \$80,000 and \$100,000	Same

Form 1099 HE 1999

Name of institution _____ EIN _____

Taxpayer's Social Security Number _____

Name
Address

Student will have to supply SSN to institution

Student's Name (if different from taxpayer's) _____

Student's Social Security Number _____

1 Payments of tuition and required fees during 1999 by, or on behalf of, student from sources other than grants or scholarships or employers for semester, etc., beginning in 1999 or the first three months of 2000.

\$ _____

2 Check box if any line 1 payments were for a semester, etc., during which student was enrolled at least half-time in the first or second academic year of post-secondary education that was part of a degree or certificate program.

3 Check box if student completed two academic years of post-secondary education prior to enrollment in the first academic period covered by this 1099 HE.

If the line 3 box is checked, the remainder of this form need not be completed.

4 Check box if student completed one academic year of post-secondary education prior to enrollment in any course of instruction for which a line 1 payment was made.

5 Federal grants allocable to semester(s), etc., for which line 1 payments were made.

\$ _____

6 The lesser of line 1 or \$1,500 minus line 5.

\$ _____

Instructions for Form 1099 HE

- 1 Payments made from the proceeds of loans are included in line 1. Payments made by employers are excluded to the extent they are excluded from the employee's income. All grants and scholarships are treated as payment first for tuition and required fees, even if nominally designated for another purpose, e.g., room and board. Exempt Savings Bond interest is treated as a grant.
- 2 Pell and SEOG grants are included in line 5. Payments for work study are not included. If a single payment from a federal grant is made for academic periods for which line 1 payments were made and other academic periods, the federal grant must be appropriately allocated to the periods for which line 1 payments were made.

Instructions for this 1099
will have to be based
on detailed IRS guidance
regarding definition of
terms and addressing unusual
circumstances

Schedule HE-C Tax Credits for Higher Education

Use this schedule for calculating allowable credits for the payment of tuition and required fees for the first two years of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. If a credit may be claimed with respect to any individual student, no deduction for higher education expenses may be claimed with respect to that student by any taxpayer. Credits may not be claimed in more than two taxable years with respect to any individual student. Credits are not allowed for taxpayers with modified adjusted gross income of more than \$100,000 on a joint return or \$70,000 on a single or head of household return. Credits are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a credit on a return if the student is claimed as a dependent on the return of any other person. All claims for credits must be supported by Form 1099 HE(s) attached to this schedule. A credit may be claimed for an individual student only if the line 2 box is checked on at least one Form 1099 HE for 1999. If the line 3 box is checked, no credit may be claimed. If the line 4 box on any 1099 HE is checked, or if this is the second year for which a credit is being claimed for a student, the student must have earned a B- grade average (2.75 on a 4 point scale), or the equivalent thereof, with respect to education at post-secondary institutions completed prior to any academic period for which a credit is claimed on this Schedule; evidence thereof must be maintained in the taxpayer's records.

1 First student's name _____		Social Security number _____		
Name of institution supplying 1099 HE _____		Institution's EIN _____		1099 HE line 6 amount
a	_____	_____	_____	\$ _____
b	_____	_____	_____	\$ _____
c	_____	_____	_____	\$ _____
d	Enter the sum of lines a, b, and c.			\$ _____
e	Enter the lesser of line d or \$1,500			\$ _____
2 Second student's name _____		Social Security number _____		
Name of institution supplying 1099 HE _____		Institution's EIN _____		1099 HE line 6 amount
a	_____	_____	_____	\$ _____
b	_____	_____	_____	\$ _____
c	_____	_____	_____	\$ _____
d	Enter the sum of lines a, b, and c.			\$ _____
e	Enter the lesser of line d or \$1,500			\$ _____
3 Third student's name _____		Social Security number _____		
Name of institution supplying 1099 HE _____		Institution's EIN _____		1099 HE line 6 amount
a	_____	_____	_____	\$ _____
b	_____	_____	_____	\$ _____
c	_____	_____	_____	\$ _____
d	Enter the sum of lines a, b, and c.			\$ _____
e	Enter the lesser of line d or \$1,500			\$ _____
4 Fourth student's name _____		Social Security number _____		
Name of institution supplying 1099 HE _____		Institution's EIN _____		1099 HE line 6 amount
a	_____	_____	_____	\$ _____
b	_____	_____	_____	\$ _____
c	_____	_____	_____	\$ _____
d	Enter the sum of lines a, b, and c.			\$ _____
e	Enter the lesser of line d or \$1,500			\$ _____
5 Potential credit. Enter the sum of 1e, 2e, 3e, and 4e.				\$ _____

Schedule HE-C Tax Credits for Higher Education

Application of phase-out ratio

- 6 Adjusted gross income (from line xx, Form 1040)
- 7 Income excluded by reason of sections 911, 931, and 933 (see instructions) \$, _____
- 8 Modified adjusted gross income: add lines 6 and 7 \$, _____
\$, _____

If your line 8 amount is \$50,000 or less (\$80,000 or less for a joint return), enter the amount on line 5 on line yy of your Form 1040 and do not complete the rest of this page.

If your line 8 amount is \$70,000 or more (\$100,000 or more for a joint return), you are ineligible for any credit calculated on this Schedule HE-C or any deduction calculated on Schedule HE-D.

- 9 Phase-out ratio
 - (a) Line 8 amount minus \$50,000 (80,000 for joint returns)
 - (b) Divide (a) by \$20,000 and enter. If greater than 1.00 no credit may be claimed. \$, _____
- 10 Enter amount from line 5. \$, _____
- 11 Multiply line 10 amount by line 9 (b) phase-out ratio. \$, _____
- 12 Allowable credit: Subtract line 11 from line 10 and enter on line yy of your Form 1040. \$, _____

Taxpayer name _____ Taxpayer Social Security Number _____

Schedule HE-D Deductions for Higher Education

Use this schedule for calculating allowable deductions for the payment of tuition and required fees for any period of post-secondary education for the taxpayer, the taxpayer's spouse, and any person claimed as a dependent by the taxpayer. Deductions are not allowed for taxpayers with adjusted gross income of more than \$100,000 on a joint return or \$70,000 on a single or head of household return. Deductions are not allowed on the returns of married persons filing separately or for students who are non-resident aliens or certain drug felons. No student may claim a deduction on a return if the student is claimed as a dependent on the return of any other person. No deduction may be claimed for educational expenses of students for whom a credit may be claimed. All claims for deductions must be supported by Form 1099 HE(s) attached to this schedule. Generally, no deduction with respect to an individual student may be claimed unless the box on line 2 of at least one Form 1099 HE for that student has been checked by the issuing institution. If the line 2 box has not been checked, a deduction may only be claimed if the education is related to the student's job or enhances the student's employment-related skills and the taxpayer so indicates by checking the appropriate box on lines 1 - 4. No deduction may be claimed with respect to line 1 amounts on any Form 1099 HE which has been used by the taxpayer or any other person to claim a credit using Schedule HE - C.

education is job/skill related 1099 HE line 1

1 First student's name _____ Social Security number _____
Name of institution supplying 1099 HE _____ Institution's EIN _____

a _____
b _____
c _____

\$ _____
\$ _____
\$ _____

2 Second student's name _____ Social Security number _____
Name of institution supplying 1099 HE _____ Institution's EIN _____

a _____
b _____
c _____

\$ _____
\$ _____
\$ _____

3 Third student's name _____ Social Security number _____
Name of institution supplying 1099 HE _____ Institution's EIN _____

a _____
b _____
c _____

\$ _____
\$ _____
\$ _____

4 Fourth student's name _____ Social Security number _____
Name of institution supplying 1099 HE _____ Institution's EIN _____

a _____
b _____
c _____

\$ _____
\$ _____
\$ _____

5 Enter the sum of all amounts from lines 1 - 4.

6 Potential deduction: Enter the lesser of line 5 amount or \$10,000.

\$ _____
\$ _____

Schedule HE-D Deductions for Higher Education

Application of phase-out ratio

- 7 Adjusted gross income (from line xx, Form 1040)
- 8 Income excluded by reason of sections 911, 931, and 933 (see instructions)
- 9 Modified adjusted gross income: add lines 6 and 7

\$ _____
\$ _____
\$ _____

If your line 9 amount is \$50,000 or less (\$80,000 or less for a joint return), enter the amount on line 6 on line zz of your Form 1040 and do not complete the rest of this page.

If your line 9 amount is \$70,000 or more (\$100,000 or more for a joint return), you are ineligible for any deduction calculated on this Schedule HE-D or any credit calculated on Schedule HE-C.

- 10 Phase-out ratio
 - (a) Line 9 amount minus \$50,000 (80,000 for joint returns)
 - (b) Divide (a) by \$20,000 and enter. If greater than 1.00 no deduction may be claimed.
- 11 Enter amount from line 6.
- 12 Multiply line 11 amount by line 10 (b) phase-out ratio.
- 13 Allowable deduction: Subtract line 12 from line 11 and enter on line zz of your Form 1040.

\$ _____
\$ _____
\$ _____
\$ _____



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE UNDER SECRETARY

FAX TRANSMITTAL

TO: JASON GOLDBERG

ORGANIZATION: _____

PHONE NUMBER: _____

FAX NUMBER: 456-2870

FROM: SUSAN FROST, Special Advisor on Budget Policy

PHONE NUMBER: 202.401.8450

MESSAGE: _____

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7 PAGE(S) TO FOLLOW

800 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202

AACC

AMERICAN ASSOCIATION OF COMMUNITY COLLEGES ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES

June 10, 1996

The Honorable William Jefferson Clinton
President of the United States
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear President Clinton:

We write on behalf of the major national organizations representing presidents and boards of trustees of the nation's community colleges. Overall, our associations include some 1,100, public and private, associate degree-granting institutions and 80 percent of all community college boards of trustees. We wish to express our strong support for your "Hope Scholarship Tax Credit" proposal. The attached pages list some of our members who formally endorse the plan.

If enacted, your tax credit proposal would provide an extremely valuable addition to the existing federal student financial aid programs as a means of financing a college education. Community college educators also appreciate your recognition that it is imperative for most Americans to receive at least two years of postsecondary education, both for their own financial well-being as well as that of the nation's economic growth and stability.

The last fifteen years have seen an alarming erosion in the value of federal grant and work assistance. We are grateful that, on July 1, the Pell Grant maximum will increase by \$130 to \$2,470, and we appreciate and endorse your support for a maximum grant of \$2,700 in FY 1997. The Hope Scholarship Tax Credit proposal would augment Pell Grants and other financing vehicles now available to community college students. It could also send a powerful signal about the priority that the federal government places on college attendance.

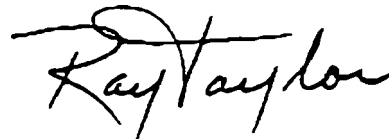
We do have questions about some aspects of this proposal. These include the interaction of the tax credit with current student aid programs, and how the proposed B standard would mesh with existing Title IV standards of satisfactory academic progress. But we believe that these points can be worked through in the future.

We applaud you for your leadership in this area. We hope that you will continue to work to make high quality community college education and training readily available to all Americans.

Sincerely,



David Pierce
President, AACC



Ray Taylor
President, ACCT

Attachments

**AACC Community College Presidents
Supporting President Clinton's "Hope Scholarship Tax Credit"**

David Bartley, President	Holyoke Community College	Holyoke, MA
Jacqueline Belcher, President	DeKalb College	Decatur, GA
George Hoggs, Superintendent, President	Palomar College	San Marcos, CA
Karen Bowyer, President	Dyersburg State Community College	Dyersburg, TN
Julius Brown, President	George C. Wallace State Community College	Selma, AL
Donald W. Bryant, President	Carteret Community College	Morehead City, NC
Walter Bumphus, President	Brookhaven College	Farmers Branch, TX
John Cavan, President	Southside Virginia Community College	Alberta, VA
John Davitt, President	Glendale Community College	Glendale, CA
Pamila Fisher, Chancellor	Yosemite Community College District	Modesto, CA
Leonardo de la Garza, President	Santa Fe Community College	Santa Fe, NM
Mary Ellen Duncan, President	SUNY College of Technology-Dehli	Dehli, NY
Augustine Gallego, Chancellor	San Diego Community College District	San Diego, CA
Steven Jones, President	Phillip County Community College	Helena, AR
Edward Liston, President	Community College of Rhode Island	Warwick, WI
E. Ann McGhee, President	Seminole Community College	Sanford, FL
Robert Messina, President	Burlington County College	Pemberton, NJ
Harold Mitchell, President	Roanoke-Chowan Community College	Ahoskie, NC
Leila Gonzalez Sullivan Interim President	Gateway Community-Technical College-Long Warf	New Haven, CT
Paul Thompson, President	William Rainey Harper College	Palatine, IL
Jerry Sue Thomson, President	Cuyahoga Community College District	Cleveland, OH
Belle Whorlian, President	Central Virginia Community College	Lyuchburg, VA

TRUSTEESACCT BOARD MEMBERS
Individually Supporting the Proposal

Helen M. Newsome	Roanoke-Chowan Community College, NC
Talmage Penland	Asheville-Buncombe Technical C.C., NC
Dennis E. Christensen	Central Wyoming College, WY
Montez C. Martin, Jr.	Trident Technical College, SC
Marsha a. Stoltman	Mercer County Community College, NJ
David Mathis	Mohawk Valley Community College, NY
Gene E. McDonald	Westmoreland Couty Community College, PA
Maureen Grady	Clark State Community College, OH
Richard Anderson	College of Lake County, IL
Isobel F. Dvorsky	Chabot-Las Positas Comm. Coll. Dist., CA
Linda Gallen	Manatee Community College, FL
Jean B. Peden	Mississippi Gulf Coast, C. C. Dist., MS
Bruce A. Austin	Houston Community College System, TX
James E. Sherrill	Centralia College, WA
Linda Rosenthal	Maricopa County Comm. Coll. Dist., AZ
Lydia Santibanez	Temple Junior College, TX
Jo Ann Sharp	Seward County Community College, KS
Joan Jenstead	Waukesha County Technical College, WI
Willie Culpepper	Hawkeye Community College, IA

OTHER TRUSTEES

William A. Conner	Sussex County Community College, NJ
Ray D. Steffler	Butler County Community College, PA

OTHER TRUSTEES (continues)

Elayne Hettleman	Community Colleges of Baltimore, MD
Jimmy L. Strayhorn	Anson Community College, NC
Joseph C. Volk	Lehigh Carbon Community College, PA
Jack Ramsey	Northeast Mississippi Comm. Coll., MS
James R. Strickland	Coastal Carolina Community College, NC
Josephine Elliott	Craven Community College, MD
John O Cunningham, Sr.	Northeast Mississippi Comm. Coll., MS
Helen B. Dowdy	North Carolina Assn. of Com. Colleges
Julius A. Fulmore	Guilford Technical Community College, NC
Nan P. Manuel	Guilford Technical Community College, NC
Paul Maultsby	Wake Technical Community College, NC
Beth Hattaway	Seminole Community College, FL
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Raymond C. Siniawski	Community College of Allegheny Co., PA
John M. Sledge	Sandhills Community College, NC
Nellie J. Fennell	Roanoke-Chowan Community College, NC

Walter R. Stancil	Richmond Community College, NC
James F. Strickland	James Sprunt Community College, NC
Robert C. Wrenn	Virginia State Board for Comm. Colleges
Ethel H. Hall	Alabama State Dept. of Postsecondary Ed.
R. Henderson Scott	Alamance Community College, NC
Jacqueline L. Holland	Rockland Community College, NY
Jean Bond	Pines Technical College, MN
Louise Muse	Pamlico Community College, NC
Wallace W. Gee	Alamance Community College, NC
Helen Euliss	Alamance Community College, NC
Hanna C. Kutteh	Mitchell Community College, NC
Geraldine Barnes	Mississippi Gulf Coast Com. Col. Dist.
Jack L. Moore	Halifax Community College, NC
Joe Underwood	Sampson Community College, NC
Melanie Jackson	Northern Virginia Community College
Robert Watters	Mississippi Gulf Coast Comm. Col. Dist.
Joyce Moore	Pamlico Community College, NC
Daphne Yeomans	Pamlico Community College, NC
Don H. Perry	Wake Technical Community College, NC
W. Joseph Seel	Southwestern Community College, NC
Robert L. Edwards	Asheville-Buncombe Tech. Com. Coll., NC
John O. Tilson	Asheville-Buncombe Tech. Com. Coll., NC
T. C. Smith	Lenoir Community College, NC
James V. Cerra	Mississippi Gulf Coast Com. Coll. Dist.
Marlin J. Herring	Coastal Carolina Community College, NC
Virginia N. Scott	Cloucester County College, NJ

Joyce Ellis	MCDowell Technical Community College, NC
Douglas C. Johnson	Martin Community College, NC
J. Carroll Jones	Martin Community College, NC
Troy Holliday	Northeast Mississippi Community College
Edward C. Sanders	Westart Community College, AR
Sarah Kittner	Halifax Community College, NC
Jessie M. Jones	Edgecombe Community College, NC
C. Louis Shields	Coastal Carolina Community College, NC
Noel B. Jones	Martin Community College, NC
James Morgan	Coastal Carolina Community College, NC
Sidney R. French	Craven Community College, NC
Bernella W. Delamora	Halifax Community College, NC
Herbert S. Stewart	Polk Community College, FL
Billie J. Reynolds	Indian River Community College, FL
Frankie F. Young	Halifax Community College, NC
Laura J. Bohm	Genesee Community College, NY
Alson E. Starnes	Caldwell Comm. Coll. & Tech. Inst., NC
Claiborne T. Richardson	Northern Virginia Community College
William S. Stone	Caldwell Comm. Coll. & Tech. Inst., NC
Bert Unger	Richmond Community College, NC
Sally R. Merrifield	Okaloosa-Wilton Community College, FL
David E. Jordan	James Sprunt Community College, NC
Michael Lacina	Blinn College, TX
Sara Q. Brown	Haywood Community College, NC
Grovene Russell	Haywood Community College, NC
Robert L. Rugendall	Harrisburg Area Community College, PA

W. Terry Whisnant
William H. Murray

Southside Virginia Community College
Horry-Georgetown Technical College, SC

December 8, 1996

MEMORANDUM FOR GENE SPERLING

FROM: PAUL DIMOND *PL*

SUBJECT: HOPE SCHOLARSHIPS, SKILL GRANTS, PELL GRANTS
AND G.I. BILL FOR AMERICA'S WORKERS

CC: BRUCE REED, KEN APFEL

Proposal: offer the President an option to propose in his FY98-2001 Balanced Budget that essential resources and good information be placed directly in the hands of individuals and families on the mandatory side of the budget so that students and workers of all ages are assured that they will be better able to invest in the post-secondary education and training they choose to get ahead in the new economy. In particular, I propose full exploration and presentation of an option that incorporates the following on the mandatory side of the budget:

- \$1500 Hope Scholarship for up to two years, \$10000 Education Tax Deduction and expanded IRA, all with the same income phase-outs
- An additional \$1500 Hope Skill Credit for one year for Dislocated Workers (who cannot get back to work with their current skills based on a minimum of 12 weeks of job search)
- Pell Grants (with whatever maximum you deem appropriate, e.g., \$3000, the median cost of tuition for a year at a four-year college or university), including non-degree training programs so long as their consumer information and gatekeeping is based not only on the rate of completion of the offered curriculum but also on the earnings of the student in the year following completion of the prescribed course-work
- Pay-As-You-Earn Student Loans (in both Direct and GSL Loans) so that students and workers of all ages can invest in learning new skills and repaying based on future earnings.

I. Relevance to POTUS legacy. Since the mid-term elections in 1994 and throughout the 1996 campaign, the President staked his affirmative legacy on empowering all American individuals and families with the tools they need to learn new skills to make a successful crossing from the old industrial era to a new age of discovery, knowledge and information. That is the motive for his "Pay-As-You-Earn" student loans, increases in Pell Grants, proposed Middle Class Bill of Rights (including the Education Tax Deduction, expanded IRA, and individual Skill Grants in a G.I. Bill for America's Workers), and the Hope Scholarship. *Given the pressures on Non-Defense Discretionary Spending for at least the next generation, there is only one way to assure that the President's legacy is built into the fabric of federal budgeting: put all of these forms of federal support and incentives to increase individual and family "education purchasing power" on the mandatory side of the budget.*

II. Other considerations:

- Balanced Budget. I take a back seat to no one in this Administration as a deficit hawk -- I

continue to urge that the President balance the budget on his watch, including proposing a budget that achieves a zero deficit in FY2001. That means that the full budget implications of the proposal (and any alternatives) should be fully fleshed out. Then, the hard budget priorities and trade-offs can be presented to the President. I am confident that he will choose to include this proposal as a centerpiece of his proposed Balanced Budget. And I am just as confident that the President will negotiate to include this proposal as an essential component of any Balanced Budget agreement. *But the President will have this opportunity only if you make sure that the option is fairly presented to him.*

- Constituency and Hill Politics. Adding an increased, more flexible Pell Grant and a Hope Skill Credit for Dislocated Workers will build support for the entire package (including the Hope Scholarship, the Education Tax Deduction, and the Expanded IRA) among student, higher ed, and union groups. It will make clear to all of these constituencies -- and to the American people -- that the President is serious about making sure that all Americans have the most important key to unlocking the door to greater opportunities as the U.S. leads the world into a more challenging and more rewarding new age of discovery, knowledge and information. It will give liberal and moderate Democrats on the Budget, Ways and Means, and Finance Committees (with the full support of their compatriots on the Authorizing Committees) something to fight for that is right at the top of the President's agenda. And it will make clear to Republicans that these essential tax cuts and Pell Grants must become an integral -- and lasting -- part of a Balanced Budget agreement.

- Agency Concerns. DoEd will generally support all aspects of the proposal, although they will express concern about making Pell Grants more flexible because the increased information and gate-keeping requirements on non-degree programs may raise concerns among the higher ed community: But we can strike a deal, first, with the community colleges and the proprietary schools (and, then, with four-year colleges and universities) that this is a very small and very fair price for making Pell Grants mandatory and enabling them to compete for higher amounts on the mandatory side of the budget, now and in the years ahead. DoL will waffle on all counts for a variety of reasons, most of which relate to fears of losing support for appropriations for DoL training programs: Even if this fear were born out, however, it should not distract the President for one second from assuring that the increased purchasing power he has always fought for is assured to be placed directly in the hands of individuals and families, students and workers of all ages by including the mandatory proposal in a Balanced Budget agreement. [N.B.: Moreover, we can still craft an adult-only G.I. Bill for America's Workers, modelled after the Careers bill in the House, that includes most of the components of our proposal last year -- One-Stop Shops (supplemented by the major advances DoL is making with its electronic labor exchange, America's Job Bank, Talent Bank, Labor Market Information and Training Network), area-wide Local Workforce Boards and flexible, state-local designed individual Skill Grants. DoEd will be submitting a separate Voc Ed bill (hopefully based on the principles of accountability, choice and excellence, and retaining all kids in "school" until graduation.) We should avoid any provision relating to School-to-Work in order to avoid renewing this controversy with the Conservative Right in the House.]

December 5, 1996

MEMORANDUM FOR GENE SPERLING
BRUCE REED

FROM: PAUL DIMOND *FD*

SUBJECT: INAUGURATION ADDRESS PROPOSAL --
A \$1 billion prize for discovering and producing a vaccine to
eradicate HIV/AIDS from the United States

Proposal: offer the President the opportunity to propose in his Second Inaugural Address a \$1 billion dollar prize for discovering and producing a minimum of 25 million complete immunization doses of an effective vaccine to eradicate HIV/AIDS from the United States at the dawn of the new century. The President's HIV-AIDS Eradication Prize would be budgeted in the year prior to the last year of the budget window so that it would be scored seriously, but the prize would not be awarded until the FDA and CDC jointly approve an HIV/AIDS vaccine and to purchase enough vaccine for a minimum of 25 million complete immunizations for a total reward of \$1 billion. As set forth below, this prize could be structured so that it is shared: to promote competition to win the prize, to produce the largest number of immunizations of effective vaccine(s) as possible at a reasonable price for the prize, and to deliver the vaccine so that it effectively eradicates the current HIV/AIDS epidemic from the United States.

This memorandum describes: (1) the background for such a proposal; (2) one example of how the terms of the prize and related activities could be structured; and (3) next steps for consideration of a proposal by the President.

I. Background: Personal, Politics, Economics, Timing, Moral Imperative

A. Personal. Within the context of balancing the budget to speed the transition in the U.S. from the industrial era to the greater rewards of this new age of discovery, knowledge and information, *you two have encouraged me to focus my work on proposals that put the keys to expanding opportunity directly in the hands of individuals, families and communities so that they can choose for themselves how best to make this historic crossing to the new economy.* Examples include: (1) the G.I. Bill For America's Workers, Education Tax Deduction, Hope Scholarship, and Pay-As-You Earn Student Loans (to which I hope you will add Hope Skill Credits for Dislocated Workers and Mandatory Pell Grants for low- and moderate-income students and workers in this Budget); (2) Technology Literacy Challenge, Charter Schools, School Choice, and good information based on High Standards to empower parents, teachers and students to choose the learning that will best prepare the next generation for this new age; (3) EZ/EC Challenge (Round I & II), CDFI Fund, CRA reform, Brownfield Expensing, and CD Venture Capital Credit to stimulate private sector investment in private enterprise in poor rural and inner-city

neighborhoods; and (4) housing vouchers, better job and transportation linkages, and school choice to empower individuals and families in these communities to choose where to live, work, and go to school to become self-sufficient and upwardly mobile through jobs and learning.

Whatever my contribution to these efforts, *they succeed only to the extent that you decide to tee them up for the President to knock out of the park.* I hope that your considerable success in doing so gives me the credibility to inspire you to read thoroughly and to consider carefully how best to develop and to present a different type of proposal to the President -- *a dramatic symbol of his commitment to lead the country into this new age of discovery, through a wholly reinvented, smarter government initiative to catalyze private-sector invention, development and production to end the scourge of the HIV/AIDS epidemic in the very near future in the U.S. (and within a generation around the world).*

As a result, please note that this is not a proposal for an old-style big government, industrial era-Manhattan or -NASA project (to end a conventional world war or to build a spaceship to send a single man to the moon). This is not a proposal for an equivalent, old-style government funded NIH research program. Instead, this is an information-age proposal (a) to stimulate fierce but friendly competition among firms, investors, university and firm researchers throughout the world to discover or invent, develop and produce an effective vaccine for HIV/AIDS and (b) then to assure effective cooperation to end the HIV/AIDS epidemic. As a result, there may be entrenched bureaucracies inside the government (e.g., at NIH and in some of the old-guard health care policy-making establishment) and old ways of doing business (e.g., focussing HIV/AIDS research almost exclusively on prevention and cure) that may line up against the proposal. As set forth below, however, the good news is that the substantial advances in treating those with HIV/AIDS has set the stage to launch this proposal for a \$1 billion presidential prize.

B. Politics. Until this year the politics understandably focussed virtually all energy and research on treating and curing those with HIV/AIDS: those already infected, their families and friends, and their related allies wanted to ease the suffering and to prolong the life of those otherwise sentenced to almost immediate death. As a result, today there is virtually no federal funding for research into vaccines. With the advances in treating HIV/AIDS, however, there is a growing willingness among the most interested and vocal constituencies to consider new ways to develop vaccines to end the epidemic altogether -- *so long as they do not compete with or otherwise take away federal funding for continued research for treatment and cure.* [N.B.: For this reason alone, do not permit the President to attempt to launch a "new" initiative to develop an HIV/AIDS vaccine through a traditional NIH-funded program of research that will offend these constituencies. Moreover, such a traditional, NIH-funded research program offers no new symbol of the possibilities in this new age of discovery and provides no real incentives for the discovery, development and production of effective HIV/AIDS vaccine(s).]

C. Economics. Whatever the change in the underlying politics, the underlying economics continue to work against the discovery, development and production of an effective AIDS vaccine. First, there is virtually no money to be made: as few as 10 million complete courses of doses of an effective vaccine could cabin if not end the epidemic of the subtype B HIV/AIDS that predominates in the U.S. HIV/AIDS is not the type of contagious plague for which widespread

vaccination, for example, of all children or even of all persons physically capable of engaging in sex makes any sense. And contrary to popular assumption, not even the more universal vaccines produce much revenue: the combined revenues of the top 20 vaccines sold in the U.S. are much less than a single ulcer drug. Contrast the lack of economic upside for an HIV/AIDS vaccine with the substantial revenues that will be generated from drugs to treat many more millions of HIV/AIDS victims on an on-going basis over many years (and, hopefully, many more years) to prolong their lives.

Second, an HIV/AIDS vaccine, even more so than the common childhood immunizations (for which the Congress has limited liability, provided a Court of Claims procedure for all suits, created an indemnification fund), subjects the maker to the threat of financially catastrophic lawsuits unless it meets an impossible standard -- 100% effective and 100% safe from all side-effects. Finally, in the absence of a guaranteed purchase order for the vaccine, any firm, university or research team, or individuals discovering or inventing an HIV/AIDS vaccine expects that governments will demand that they deliver both the vaccine and any related intellectual property at most on a negotiated "cost-plus" arrangement. *As a result, virtually all private drug companies -- and all corporate and venture capital investment -- have now chosen to completely eschew research on HIV/AIDS vaccines.* And the far-away promise of a Nobel prize thirty-odd years after the discovery of an effective HIV/AIDS vaccine is insufficient to motivate any substantial research -- whether in private firms, university and medical centers, or government labs. The untold story (which is only just now beginning to be reported) is that there is so little research for an HIV/AIDS vaccine anywhere in the U.S.

Only the leadership, prestige and financial reward of a Presidential prize of \$1 billion for the successful invention/discovery, development and production of an effective HIV/AIDS vaccine in sufficient quantities to eradicate the epidemic in the U.S. will spur private firms, corporate investment and venture capital and academic researchers all across the country -- and throughout the world -- to undertake this difficult but vital mission.

D. Timing. Both the politics and economics suggest that the time is now ripe for the proposed \$1 billion presidential prize. The advances in treatment for HIV/AIDS also provide the President with a firm platform of substantial success on one front that enables him to propose a bold initiative on another -- vaccination to eradicate the further spread of the disease.

There is no question, however, that the science of inventing or discovering an effective HIV/AIDS vaccine is very difficult: there has not yet been a successful vaccine against any human retrovirus, and the results from vaccines for animal retrovirus are mixed. In addition, there are at least two main types and twelve subtypes of this pleomorphic retrovirus; and there is no guarantee that an effective vaccine against one will confer immunity on any other. Nevertheless, in part because of the increasing knowledge of the disease process and growing confidence with the advances in treatments for HIV/AIDS, the scientific and research communities are now more ready to accept the challenge of finding or inventing effective vaccines.

In addition, there is a growing competition within the scientific community over the best way to do so -- the new molecular biology and bio-genetic technique of "sub-unit" vaccines (which are

theoretically "100% safe") versus traditional vaccine technologies (e.g., the "whole-killed virus" of Salk or the "live attenuated virus" of Sabin for polio). Indeed, this competition has even gotten down to dollars: proponents of the former claim an effective vaccine will cost \$200+ million to invent versus claims of less than \$20 million to discover the latter. The point is not whose claim is right, but that credible claims are beginning to compete at all.

An apt analogy -- popularized by the best-selling book Longitude -- may be to the prize put forward by the English government in 1717 for developing a practicable means of navigation to permit ship captains to determine their exact point east or west on their already easily charted latitude: the prize stimulated a major competition between makers of clocks and watches against an academic host of astronomers and physicists. And the competition was won by a single, self-educated, traditional watchmaker. *The genius of the economic prize is that it pays off for results, without seeking to know or to prescribe in advance what process or method will win.*

[N.B.: The subtype B virus that predominates in the U.S. is also prevalent in Europe, but represents only 10% (and a declining share) of the world-wide epidemic. Other strains predominate in the developing countries of Africa and Asia (and in Japan). The President's announcement, however, could show the way for other countries to create similar prizes or to establish joint prizes. It is also probable that the learning gained from creating an effective vaccine against the Sub-type B HIV/AIDS virus will offer important insights into creating effective vaccines against other strains in the pandemic of this pleomorphic virus. See discussion below.]

E. Moral Imperative. As you know, I just buried my last parent, my Mom. The loss of my parents is the hardest and most painful thing I have ever felt or confronted in my life, but it does fit the natural order and rhythm of birth, life and death. I don't see how I could survive the loss of one of my children. *Yet the HIV/AIDS epidemic requires just that: parents all across America (and the world) must bury their offspring when the children should be in the prime of their lives. That is why there will be such a huge and emotional groundswell of support if the President announces a prize for inventing, developing and producing an effective vaccine that will eradicate HIV/AIDS from the United States.*

II. Example of Terms of Presidential HIV-AIDS Eradication Prize and Related Activities

A. Prize. The \$1 billion prize should be structured to promote competition and to reward results for the discovery or invention, development, and production of a minimum of 25 million complete courses of doses. To do so, the prize could be shared -- for example, 75% to the first effective, 25% to the second effective vaccine.

The approval of the award should be both by the FDA (for effective immunity and an acceptable level of safety given the alternative risks for the population to be vaccinated) and the CDC (for effectiveness in ending the HIV/AIDS epidemic in the U.S. and eradicating HIV/AIDS from the U.S.). The prize could be shared among researchers, developers and producers -- who will all have an incentive to maximize their respective comparative advantages, to team up and to negotiate their own terms of work, compensation, and share of any profits in the process of seeking to win the prize.

[N.B.: My very limited understanding from game theorists and venture capitalists is that the split nature of the prize -- 75% to the first to cross the finish line and 25% to the second -- increases the number of competitors, the extent of collaboration, the total dollar amount of private investment, and the likelihood and speed of success. Some consideration may need to be given to enhancing the intellectual property rights of traditional vaccine technologies to assure that researchers in this field can protect their rights to bargain with any development and production partners for a share of any award.]

It is vital that the prize be contingent on a purchase order for at least 25 million complete courses of doses of an HIV-AIDS vaccine that will be effective in eradicating the epidemic from the U.S.: this will guarantee a pay-off only on what matters most, real results on the ground.

[N.B.: If only 10 million doses are needed to eradicate HIV-AIDS in the U.S., the rest can be sold, for example, to Europe.]

B. CDC AIDS Eradication Office. This office should be proposed at the same time as the Presidential Prize. Its mission would be to begin work in parallel to plan an effective eradication program. *The creation of this office will confirm the seriousness of the President's intent to eradicate HIV/AIDS at the dawn of the new century.* Such parallel planning will also reduce by several years the start-up time to begin and to complete the immunization program to eradicate HIV/AIDS once an effective vaccine is approved. [N.B.: The advances in treatment also set the stage for the CDC to develop an effective immunization program: more individuals who fear they have contracted the virus will seek out blood tests and, if positive, immediate treatment; persons who are HIV positive will become much more likely to notify their sexual partners; and treatment therapies reduce viral blood levels and will likely reduce the risk of transmission. These three factors set the stage for CDC to develop an effective immunization program. The strategy of "surveillance and containment" that worked so well to eradicate Smallpox throughout the world would be one possible candidate.]

C. Insurance or Indemnification Pool, plus tax incentives. The U.S. already has such a pool for childhood vaccines -- with first redress for any aggrieved plaintiffs in the Court of Claims and elimination of damage claims for pain and suffering. Such an approach will encourage more firms, investors and researchers to seek the Presidential Prize -- because they won't run the risk of losing their financial reward to the vagaries of catastrophic law suits. Exempting any profits for the two Prize winners and for other firms directly related to the production and sale of HIV/AIDS vaccines will also encourage more firms, researchers and investors to seek the Presidential Prize.

D. Foundation-Funded Research Fellowships. If the President decides to make such an announcement as a part of his Second Inaugural Address, major foundations (e.g., Rockefeller, MacArthur, Kellogg) will line up to announce funding to support 25-50 full-time research fellowships to discover or invent effective vaccines. *Such privately funded "Presidential HIV/AIDS Eradication Scholars" will add important elite support to the Presidential Prize.*

III. Next Steps

A. Your Running with the Ball. If you think this proposal has real potential on all relevant counts, then you will figure out -- as always -- how best to run with the ball. I offer four insights from my limited groundwork to date.

First, Frank Raines understands and supports the proposal in all its major elements -- the power of the Presidential Prize as a symbol and as a catalyst for real results; its economic, political, and scientific underpinnings and moral imperative; and the need to get around those bureaucrats and status-quo establishment types who might argue for a more traditional and but far less visionary and effective government-funded research program. Frank also believes that the proposed Presidential Prize as structured presents no problems for balancing the budget in the last year of the President's Budget.

Second, Secretary Shalala has publicly stated that the time is ripe for beginning a major R&D initiative on HIV-AIDS vaccines. But she is a long way from understanding the political, economic, and symbolic dynamics that all support the creation of a Presidential HIV-AIDS Eradication Prize: her initial reaction is that a Nobel Prize provides all the incentive that's necessary to do the basic research. That's the same reaction I had 6 months ago when the issue was first raised with me (see below); it takes a while to appreciate the actual dynamics that are at work here. Secretary Shalala's HIV-AIDS counsellor, however, understands and supports the concept of the Presidential Prize -- precisely because he does understand these dynamics.

Third, there is great suspicion in the various elements of the vaccine research community (drug companies, high-tech firms, health care venture capitalists, university and medical center researchers) about (1) the FDA's decision to refuse field trials of an admittedly imperfect vaccine and (2) the capacity of NIH ("Not-Invented-Here") to fund and supervise vaccination research.. As a result, both the FDA and NIH may react defensively at first about any such Presidential Prize: blow by their inertia because it is irrelevant.

Fourth, I have not thought through the potential and risks of making this a multi-lateral effort, e.g., a joint U.S.-European Prize for the Subtype B virus, a Japan-Saudi Arabia-Kuwait-South Africa-Israel Prize for other strains that plague Africa and Asia. If you choose to get into this issue more deeply, you may wish to consult Tarullo and your most trusted allies at the NSC and at State. Adding an international context to the Presidential Prize might provide an opportunity for the new "Security Team" to gain immediate international support. Given the pleomorphic nature of the HIV/AIDS virus and its many strains, it also makes sense to engage the rest of the world in developing an array of vaccines that are effective in ending this horrible pandemic around the world: it's in our self-interest to do so to prevent strains that are prevalent elsewhere from migrating here; and it's in the interest of our moral leadership of the world in this new age of discovery to use the Presidential Prize as a springboard to engage other countries in a larger competition to develop effective vaccines for the HIV/AIDS virus that are, literally, decimating the prime working-age populations in many parts of Africa and Asia.

B. Source of Background Investigation. Dr. Larry Brilliant conducted the basic

background investigation for me on a confidential basis over the last six months. Larry's background is unique: in the 1970's he participated in the world's greatest vaccine triumph, the eradication of smallpox; his book, The Management of Smallpox Eradication (UofM Press 1985) and his subsequent discussions with me spurred my interest in the potential of an HIV-AIDS vaccine; and since the 1980's he has been an entrepreneur in the rapidly advancing fields of digital and telephonic networking. For the past six months, Larry has investigated what is -- and more importantly what is not -- going on with respect to HIV-AIDS vaccine research and why. If you wish to review his final work product to me, I will gladly supply a copy of his heavily annotated report that I received on December 2. *The most important point of his study at this stage is that he looked into major drug companies, start-ups, high-tech and traditional vaccine research, venture capital investment, the AIDS constituency, the CDC, FDA, and NIH. His basic understandings were also largely confirmed by a Rockefeller Foundation report to a conference on an International AIDS Vaccine Initiative, August 17, 1995.* I have taken Larry's basic proposal and restructured it slightly so that it better fits what I think will work -- inside the White House, with the elite media and important constituencies, and with the American People -- to build support for a truly historic Presidential HIV-AIDS Eradication Prize. Larry is available to meet with you and to discuss his findings as you deem appropriate.

C. Media. There is a good chance that the controversy over how little research is now going on to discover or invent an HIV-AIDS vaccine will soon break out in the elite media. Criticism of NIH, continued controversy over the FDA decision to put a hold on field trials of an imperfect vaccine, and reports of the pull-out of virtually all major drug companies, high-tech firms and venture capitalists from HIV-AIDS vaccine research will soon bubble up to the front page and prime time. The predictable reaction of the bureaucrats in the agencies and many of the political types in the White House to such media criticism will be to propose that NIH throw a few more federal funds into a traditional process of government-supervised, peer-juried review research: this will miss a HUGE opportunity for the President. *I hope that you will choose instead to move now to put forward a much different, more effective, and dramatic proposal for decision -- a Presidential HIV-AIDS Eradication Prize of \$1 billion, with unique reach and the realistic promise of equally dramatic results. Such a Presidential prize will serve as a symbol at the Second Inauguration of how the President is leading America into a new age of unlimited possibility and unprecedented discovery that will better the lot of all mankind.*

Besides, I couldn't think of leaving you two -- my two best political allies and most respected friends in the entire Administration -- without provoking you at least once more! *Whatever you decide to do on this proposal, I've enjoyed the ride with you two for almost four full years now.*

HOPE

EXECUTIVE OFFICE OF THE PRESIDENT

29-Nov-1996 11:31am

TO: SPERLING_G
TO: REED_B
TO: Kenneth S. Apfel

FROM: Robert M. Shireman

CC: Barry White

SUBJECT: Hope Scholarships - Update

Message Creation Date was at 29-NOV-1996 11:23:00

In preparation for Monday's meeting, I wanted to give you the current state of play on the Hope tax credit, and to let you know my recommendation for next steps.

1. Design. Treasury has worked up some mock forms that colleges and taxpayers would need to fill out in order to claim the credit. Colleges would file a four-part form, providing information about costs, credit hours, federal and other aid, and grades for EACH TERM (quarter, semester, summer) paid for by the student/taxpayer during the tax year. The taxpayer then transfers all of this information into tables on a tax form, and performs various calculations in order to determine eligibility for the credit.

All of this information is necessary in order to allow taxpayers to claim a partial credit for part-time and/or partial-year schooling. For example, a half-time student might claim the \$1500 credit in two chunks over a two-year period. The forms track exactly when the person reaches the one-year point when the grade requirement kicks in. Then the forms track when the two-year point is reached (it may be in the middle of a tax year), when no further credit is allowed.

I have floated a much simpler approach to Treasury and Education. I would dispense with the idea of any partial credit, instead allowing for a \$1500 credit for tuition and fees paid for ANY half-time-or-more enrollment in a degree or certificate program. The student is eligible the first time as long as he hasn't finished two years of course work. The student is eligible for a second credit if he has a B- GPA for the first year of courses -- or those completed at the time of filing, if he hadn't yet finished the first full academic year.

The Treasury analysts agree that this would eliminate the need for the cumbersome term-by-term calculations. They raise some equity issues, however (part-time students at low-cost institutions might only get two \$500 credits, rather than being able to stretch it out over six years and get the full \$3000 under the current scheme).

If you agree that this simpler approach should be explored, we need to get Treasury to do a cost estimate.

2. Fraud. Treasury is rightfully concerned about the fraud potential with any new refundable credit. The IRS needs to (a) collect the college-provided data independently to guard against taxpayers creating their own fake 1099s; and (b) check to make sure that colleges are providing them with accurate information. Could Education perform these roles?

Education already limits eligibility to institutions approved under Title IV of the Higher Education Act, and the Education Department is already charged with certifying the financial and administrative capability of the institutions as part of the (admittedly weak) gatekeeping system. Instead of having IRS audit the system, why not beef up Education's operation a little so that they can check institutions' compliance as part of the regular certification and audit process?

As part of the current financial aid process, the Education Department already collects some of the data (particularly on poorer students) that HOPE requires. (The Department will bring a chart indicating what items are in its system). Education could collect the taxpayer data from colleges -- as an addition to its current data collection activities -- and provide IRS with the data for matching up tax forms. Again, some resources would need to be provided to Education.

3. Pell Grants. Some have expressed a concern that the HOPE credit does not help poor students enough (because it is offset dollar-for-dollar by federal grant aid). At a previous meeting, someone suggested that the Pell Grant maximum be increased to \$3000, and that the credit be reduced in order to pay for the increase. Assuming that the grant would increase by inflation each year, the cost is about \$3.7 billion. In order to save that amount, Treasury estimates that the credit would need to be reduced to somewhere between \$1350 and \$1400. A \$1500 credit would cover tuition and fees for about two-thirds of community college students. The lower amount might cover "average" tuition and fees nationally (\$1200 in 1994-95), but would not cover as many students or states.

Do you want to explore this option further, or look at other ways that the credit can be adjusted to help poor students more?

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

02-Dec-1996 08:43am

TO: Robert M. Shireman
FROM: Kenneth S. Apfel

CC: sperling_g
CC: reed_b
CC: Barry White

SUBJECT: Re: Hope Scholarships - Update

Message Creation Date was at 2-DEC-1996 08:36:00

We could either reduce the credit or eliminate the refundability. We should explore both options

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

27-Nov-1996 11:06am

TO: Gene B. Sperling

FROM: Paul R. Dimond *PRD*
 National Economic Council

CC: Jason S. Goldberg

SUBJECT: Dislocated Worker Skill Credits/Mandatory Pell

Gene,

I won't be at the Hope Scholarship meeting on Monday (b/c I'm meeting with Mayor Archer and his folks in Detroit on Monday). As a result, you will have to make the case that the option of providing Hope Skill Credit for Dislocated Workers and mandatory Pell Grants for low- and moderate-income students and workers is kept alive and fully fleshed out for "December" decision.

The state of play on my proposal for Hope Skill Credits for Dislocated Workers and Mandatory Pell Grants for low-and-moderate income students of all ages is as follows:

1. DoEd -- Mike Smith and Frank Holliman (sp?) like very much (and believe that Riley will be for this). It will build support from Higher Ed and student groups for Hope Scholarships, Education Tax Deductions and Pay-As-You-Earn Student loans; and it will give lots of friends in Congress more to fight for to build POTUS ETR legacy into Balanced Budget Budget Reconciliation. It also removes pressure (and 18-month cash flow lag) from refundability of Hope Scholarships.
2. Apfel -- favors this basic change in structure; over long term believes it will enable POTUS legacy of federal budget support to grow for lifelong learning as tool to make crossing to new economy. In contrast, if this is left on discretionary side, Pell Grants and Dislocated Worker support are subject to major competition and cut-back any time a new President or Congress adds other competing priorities as non-DDD continues to decline as a share of total federal budget and GDP. Given his OMB balanced budget hat, however, Ken will try to make structure to put on mandatory side as revenue neutral for FY98 as possible. In addition, Ken can not be put in the position of having to be the champion for this: He will help make this a "December issue" for decision, but you (and Bruce? see below) will have to press to make clear that you want this option fully explored.
3. Lisa Lynch will support this proposal (for much the same reasons as Apfel), and will make similar arguments to Secretary Reich. Barnicle is likely to caution that moving Dislocated Worker training to mandatory side through Hope Skill Credit (and making Pell Grants mandatory and more flexible for use by

dislocated workers and low-and moderate-income adults) will undercut Appropriation Committee support for the rest of DoL training budget: but this is just another way of admitting that reform of DoL training programs is an absolute essential anyway. So, why not embed principle of individual grants on mandatory side of budget for all? And then, with a pittance of discretionary funding, DoL can concentrate on building the interactive labor exchange (America's JJob Bank, America's Talent Bank, America's Labor Market Information, and America's Training Network), to which all variety of employers, job-seekers, intermediaries, and ETR providers will add value. In addition, DoL will be able to join in some form of devolution/partnership to governors/mayors of rest of DoL training/reemployment that may in fact build more bi-partisan support in Congress for discretionary support of ETR. [Jack Donahue is a HUGE supporter of proposed shift of Dislocated Workers/Pell Grants to mandatory side -- b/c it is the only way to get POTUS commitment to Skill Grants for "unemployed and underemployed" embedded into law and future budgets. Jack will be talking to Reich directly about this].

4. Treasury: Lubeck (sp?) believes that Hope Skill Credit for Dislocated Worker can be crafted fairly easily and that moving Pell Grants to Mandatory side will relieve most of pressures (including the 18-month lag in cash flow for and fraud by tax[ayers) from refundability feature of Hope Scholarship. Assuming that Secretary Rubin believes that POTUS legacy is embedding principle of federal support for post-secondary education and training -- put directly in the hands of the persons responsible for learning -- into federal budget, then you should find a willing ally for this if you want to get the Secretary's active support. [In fact, this should be easier for you to do than getting Secretary's support for CD Venture Capital Tax Credit!]

5. WH? Bruce Reed favors as a part of building affirmative legacy of putting keys to opportunity in hands of individuals and families (as a part of the legacy of a balancing the federal budget). Laura understands and endorses why I chose to focus on two key additional elements (Hope Skill Credits for Dislocated Workers and mandatory Pell Grants) rather than fighting for a single ETR account; whether she is willing or able to offer any additional support, I don't know.

6. Don't be surprised if a good coalition of Business and Labor Leaders (including Sweeney) presses privately for this shift of Dislocated Worker training and Pell Grants to the mandatory side sometime in December.

Let's Discuss before Monday. I'm here today, flying to Ann Arbor Thursday a.m., back Tuesday in time for G.I. Bill meeting. If we don't touch base today, call me at 313-663-9576 so that we can discuss. As usual, I'm out on a limb: and, it's your choice whether to cut it off behind me or lift this to a higher level. Do whatever's right (b/c, I'm already falling off the limb toward home anyway unless something extraordinary and unexpected happens).

Have a good turkey day with the family.

Paul

CLINTON GORE

PRESS RELEASE

For Immediate Release:
August 3, 1996

Contact: Joe Lockhart
National Press Secretary
202/496-5063

EXCERPTED REMARKS OF VICE PRESIDENT AL GORE BEFORE THE AMERICAN FEDERATION OF TEACHERS

Cincinnati, OH
August 3, 1996

President Clinton also understands that even with the latest technology, often a high school diploma is not enough. And the time has come to make two years of education after high school just as universal as a high school education is now.

So -- in addition to our \$10,000 tax deduction for the cost of college tuition -- the President has proposed a tax credit of \$1,500 a year for the cost of going to a local community college...so every citizen can have that opportunity.

There couldn't be a sharper contrast to Senator Dole. What President Clinton proposed is a tax cut -- much like the EITC -- specifically targeted at real problems for real people...a plan that doesn't rely on incentives that will never trickle down, but rather on opportunity and jobs and growth that will, along with the hope of our educators and students, shoot up.

When Bob Dole unveils his economic policy on Monday...watch closely.

Bob Dole's economic plan will blow a hole in the deficit and as *Business Week* said "could raise interest rates and lower long term growth". Candidate Dole's economic plan leads the retreat from balancing the budget and contradicts everything Senator Dole has said about deficit reduction with honest numbers.

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P.O. Box 19300 • WASHINGTON, D.C. 20036-9300 • 202-331-1996 • FAX: 202-496-4849

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cc.

Chaco.
Geog. Riley
What do you
think?

WHITE HOUSE
WASHINGTON

Please Enclose
6/4 Princeton Univ.
Remarks

cc: w/inc. George Spelling

July 16, 1996

Fred J. Taylor
University of Arkansas
at Monticello
Office of the Chancellor
Post Office Box 3596
Monticello, Arkansas 71655

Dear Fred:

Thanks for your letter of July 3 and for your suggestion that we require a minimum ACT or SAT score as a factor in our proposed college education tax credit. You make a good case for it, and I'll certainly look into your recommendation.

Hillary and I hope you're doing well and that you'll give our best to Janice.

Sincerely,

Bruce

Bruce



UNIVERSITY OF ARKANSAS AT MONTICELLO

July 3, 1996

OFFICE OF THE CHANCELLOR
(501) 460-1020
(501) 460-3321

M. Taylor
Say yes & all certainly look into your recommendation
MF rec'd 7/6

President Bill Clinton
The White House
1600 Pennsylvania Avenue
Washington, DC 20500-2000

Dear President Clinton:

I apologize for bringing such a small matter to your attention at a time when you are so busy with national and world affairs, but I thought you would want to know.

When I came to the University of Arkansas at Monticello, I made the same decision regionally that you are now recommending nationally; namely, that the top five percent of all graduates receive a \$1,000. scholarship. What I discovered was that the top five percent of graduates in southeast Arkansas were so poorly prepared academically that they had ACT scores which placed them in remediation classes.

Unfortunately, this situation still exists in southeast Arkansas. I have just finished surveying the top five percent of this year's high school graduates in three school districts, and 50 percent will have to be remediated in college. As chair of the four-year public and private *College Presidents and Chancellors Consortia* in Arkansas, I discussed this issue with them, and we urge you to add a minimum ACT or comparable SAT score as an additional requirement to having graduated in the top five percent; otherwise, some students with ACT scores as low as 14 will qualify. As presidents and chancellors we are moving toward requiring a minimum ACT of 25 for any academic scholarship awarded in Arkansas.

I hope this information is helpful.

Good luck to you and Hillary. Janice and I think of you often.

Sincerely,

Fred J. Taylor
Chancellor

mw



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Gene Sperling, National Economic Council

ORGANIZATION: The White House

PHONE NUMBER: 456-2620

FAX NUMBER: 456-2878

**FROM: Leslie Thornton, Deputy Chief of Staff and
Counselor to the Secretary**

PHONE NUMBER: 401-3001

MESSAGE: Another Hope Scholarship Op-Ed.

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The Leader

34 West Pulteney Street, Corning, New York

William C. Blake, Publisher

Michael A. Gossie, Managing Editor

Opinion

Wednesday, July 3, 1996 — Page 3C

READER VIEWS

Hope Scholarship proposal is worth supporting

Last month President Clinton announced the Hope Scholarship Plan, a tax-cut proposal which would make two years of college as universal as high school in this country — accessible and affordable to all citizens at any time of life.

In a time of escalating costs for post-secondary education, it is important that all citizens, regardless of party affiliation, consider a proposal such as this which addresses the issue. As we struggle to keep up with education requirements imposed by global competition; as we struggle to provide access to the educationally and socially disadvantaged; as we struggle to provide a system that will ensure independent living for the majority of our residents, thus decreasing dependence on governmental assistance, we should support an investment of our tax resources that will pay off in the future.

Modeled after the Georgia Hope Plan, the proposal would provide all students with a refundable \$1,500 tax credit for full-time tuition in their first year (\$750 for half-time). To those who maintain at least a B average, another \$1,500 tax credit would be granted in the second year.

The total cost of this proposal is estimated at \$42.9 billion over six years. To offset the cost, the administration proposes to reduce the percentage of export profits generally treated as sales income



Eduardo Marti

recognizes that community colleges are an essential ingredient for a well-educated citizenry and a well-trained workforce. It is gratifying to see that the institutions which enroll almost 50 percent of all students attending colleges in the United States are being recognized. This proposal also enhances access during a period of time when the cost is the greatest barrier to higher education.

New York State students should welcome the plan. The average tuition paid by New York residents to attend community college is surpassed only by Massachusetts, Maine, New Hampshire, South Dakota and Vermont. Significantly, the impact of New York State tuition rates is ameliorated by the Tuition Assistance

from 50 percent to 25 percent from multinational corporations. Also, it would auction 25 Mhz of spectrum currently reserved for digital audio radio services for subscription-based wireless services. Lastly, it would include a \$6 per passenger international departure fee.

The Hope Scholarship Plan

Plan (TAP). For example, at Corning Community College, the 1995-96 tuition charged was \$2,300 per year for a full-time student while the average TAP award was \$1,138. Therefore, on an average, our student real tuition was \$1,162. With the addition of the Hope Scholarship Plan tax credit, a New York State resident could attend our college essentially free of cost.

Community college students are not the only beneficiaries of this proposal. Those attending baccalaureate-granting institutions are included; therefore, students attending the other units of SUNY and independent colleges and universities would need to borrow less money to fulfill their dreams.

Education is no longer divided into secondary and post-secondary sectors. We need to look at education as a seamless continuum of lifelong learning if we are going to compete effectively. Let us use our resources intelligently. Let us support the Hope Scholarship Plan.

(Eduardo Marti is president of Corning Community College. People with opposing views who are interested in writing a Reader Views column are urged to contact Managing Editor Michael A. Gossie at 936-4651 Ext. 11 or City Editor John Kelleher at 936-4651 Ext. 17. Our address is P.O. Box 1017, Corning, N.Y. 14830-0817. Our fax number is 936-9939.)

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET**
Washington, D.C. 20503-0001

LRM NO: 5049

FILE NO: 2567

7/16/96

LEGISLATIVE REFERRAL MEMORANDUM

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(for) Assistant Director for Legislative Reference

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jones_re@a1.eop.govSUBJECT: EDUCATION Amendments to Higher Education Act on Draft Bill: Hope
Scholarship Tax Credits**DEADLINE: Noon Wednesday, July 17, 1996**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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**RESPONSE TO
LEGISLATIVE REFERRAL
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LRM NO: **5049**
FILE NO: **2667**

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- (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
- (2) sending us a memo or letter

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Office of Management and Budget
Fax Number: 395-3109
Branch-Wide Line (to reach legislative assistant): 395-3454

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 _____ (Agency)
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SUBJECT: EDUCATION Amendments to Higher Education Act on Draft Bill: Hope
Scholarship Tax Credits

The following is the response of our agency to your request for views on the above-captioned subject:

- _____ Concur
- _____ No Objection
- _____ No Comment
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DRAFT 7/16/96

STUDENT AID NEED ANALYSIS AMENDMENTS

SEC. ____ (a) CALCULATION OF AVAILABLE INCOME.--(1) Section 475 of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq., hereinafter in this section referred to as "the Act") is amended--

(A) by amending subsection (c) (1) (A) to read as follows:

"(A) the sum of--

"(I) Federal income taxes;

"(II) the amount of any tax credit taken under [insert name of HOPE Scholarship act and/or IRC cite], minus the refundable portion of such credit, if any; and

"(III) the product of any tax deduction taken under [insert name of Act, and/or IRC cite] multiplied by the marginal income tax rate of the taxpayer [cite];" and

(B) by amending subsection (g) (2) (A) to read as follows:

"(A) the sum of--

"(I) Federal income taxes;

"(II) the amount of any tax credit taken by the student (if his or her parent is not allowed a deduction for the student under section 151 of the Internal Revenue Code) under [insert name of HOPE Scholarship act and/or IRC cite], minus the refundable portion of such credit, if any; and

"(III) the product of any tax deduction taken

by the student (if his or her parent is not allowed a deduction for the student under section 151 of the Internal Revenue Code) under [insert name of Act, and/or IRC cite] multiplied by the marginal income tax rate of the taxpayer [cite]."

(2) Section 476(b)(1)(A)(i) of the Act is amended to read as follows:

"(A) the sum of--

"(I) Federal income taxes;

"(II) the amount of any tax credit taken under [insert name of HOPE Scholarship act and/or IRC cite], minus the refundable portion of such credit, if any; and

"(III) the product of any tax deduction taken under [insert name of Act, and/or IRC cite] multiplied by the marginal income tax rate of the taxpayer [cite]."

(3) Section 477(b)(1)(A) of the Act is amended to read as follows:

"(A) the sum of--

"(I) Federal income taxes;

"(II) the amount of any tax credit taken under [insert name of HOPE Scholarship act and/or IRC cite], minus the refundable portion of such credit, if any; and

"(III) the product of any tax deduction taken under [insert name of Act, and/or IRC cite] multiplied by the marginal income tax rate of the taxpayer [cite]."

(b) DEFINITIONS.--Section 480 of the Act is amended--

(1) in subsection (a)(2)--

(A) by striking out "and no portion" and

inserting in lieu thereof "no portion"; and

(B) by inserting immediately after "(42 U.S.C. 12571 et seq.)," the following: "and no portion of any tax credit taken under insert name of HOPE Scholarship act and/or IRC cite,";

(2) in subsection (b)--

(A) in paragraph (13), by striking out "and" at the end thereof;

(B) by redesignating paragraph (14) as paragraph (15); and

(C) by inserting immediately after paragraph (13) the following new paragraph:

"(14) any tax deduction taken under insert name of Act and/or IRC cite; and";

(3) in subsection (e)--

(A) in paragraph (3), by striking out "and" at the end thereof;

(B) in paragraph (4), by striking out the period at the end thereof and inserting in lieu thereof a semicolon and "and"; and

(C) by adding at the end thereof the following new paragraph:

"(5) any tax credit taken under insert name of HOPE Scholarship act and/or IRC cite; and";

(4) in subsection (j), by adding at the end thereof the following new paragraph:

"(4) Notwithstanding paragraph (1), a tax credit taken

under insert name of HOPE Scholarship act and/or IRC cite shall not be treated as estimated financial assistance for purposes of section 417(3).".

DRAFT 1/16/96

Section-by-section analysis for need analysis provision:

Section ____ of the bill would make a series of conforming changes to the calculation of a postsecondary student's need for assistance under Title IV of the Higher Education Act of 1965 (HEA). These amendments would: 1) reduce the discretionary income ("available income") for all three categories of students by the amount of any nonrefundable portion of the HOPE Scholarship tax credit or reduction of tax resulting from the use of the HOPE Scholarship tax deduction; 2) exclude the HOPE Scholarship tax credit from the definition of "total income" and the determination of estimated financial assistance, and include the credit in the definition of "excludable income"; and 3) include the value of the deduction in the definition of "untaxed income and benefits." These changes are intended to ensure that a student's future eligibility for Title IV, HEA assistance is not affected by his or her family's use of the HOPE Scholarship tax benefit.

By way of background, need (other than for Pell Grants) is generally calculated as the student's cost of attendance minus the expected family contribution (EFC), minus other estimated non-Title IV HEA financial assistance. The income and asset information used in this calculation is typically the information for the calendar year that precedes the start of the academic year or award year (July 1-June 30) for which the assistance is sought.

The statutory formula used in this calculation is in section 475, 476, or 477 of the HEA, depending on whether the student is a dependent student, and independent student with dependents, or an independent student without dependents (other than a spouse).

If the student is a dependent student, the EFC is a combination of the calculation of the Parent Contribution (PC) and the Student Contribution (SC). The overall PC consists of the parents' contribution from income and the parents' contribution from assets. In determining the contribution from income, the family's financial resources are divided between mandatory (e.g. taxes and living expenses) and discretionary expenditures. Postsecondary education expenses are considered discretionary expenditures of family income since no State mandates education beyond the secondary level. A portion of discretionary income, calculated using marginal assessments of 22%-47%, is then considered to be available for postsecondary education expenses.

Assets are treated similarly. A portion (including the net value of the family's principal place of residence) is exempt from assessment; the remainder is subject to an assessment that ranges from 2.64% to 5.64%, depending on the level of the parent's discretionary income. Likewise, the full amount of the

dependent student's income and assets are not included in the SC. The SC is comprised of 50% of the student's discretionary income plus 35% percent of his or her net assets.

If the student is an independent student, under need analysis the income and assets of the student (and his or her spouse, if any) are treated more like the income and assets of the parents of a dependent student (particularly if the independent student has dependents other than a spouse). In general, the dependent student is expected to contribute a greater proportion of his or her income and assets towards financing his or her postsecondary education, the independent student without dependents (other than a spouse) is expected to contribute a somewhat smaller share, and the independent student with dependents is expected to contribute the least (but roughly the same share as the parents of a dependent student) among these three categories of students.

REQUIRE MINIMUM DISTRIBUTION OF SUBPART F INCOME

that is Subpart F income.

Under the controlled foreign corporation ("CFC") rules of the Internal Revenue Code, U.S. shareholders of CFCs are treated as receiving an annual distribution of their pro rata share of the CFC's "subpart F" income. Subpart F income generally consists of highly mobile income, including passive income and income from certain third-country sales and manufacturing activities. Under current law, if a CFC has no subpart F income, its shareholders of a CFC are permitted to defer U.S. tax on all of the CFC's income. The proposal would require that a CFC's subpart F income be no less than half of its total earnings and profits. This proposal would reduce the extent to which foreign tax holidays or other incentives could distort the allocation of capital between U.S. and foreign investment.

This proposal would increase revenues by approximately \$5 billion over (five or seven) years.

Non-Subpart F

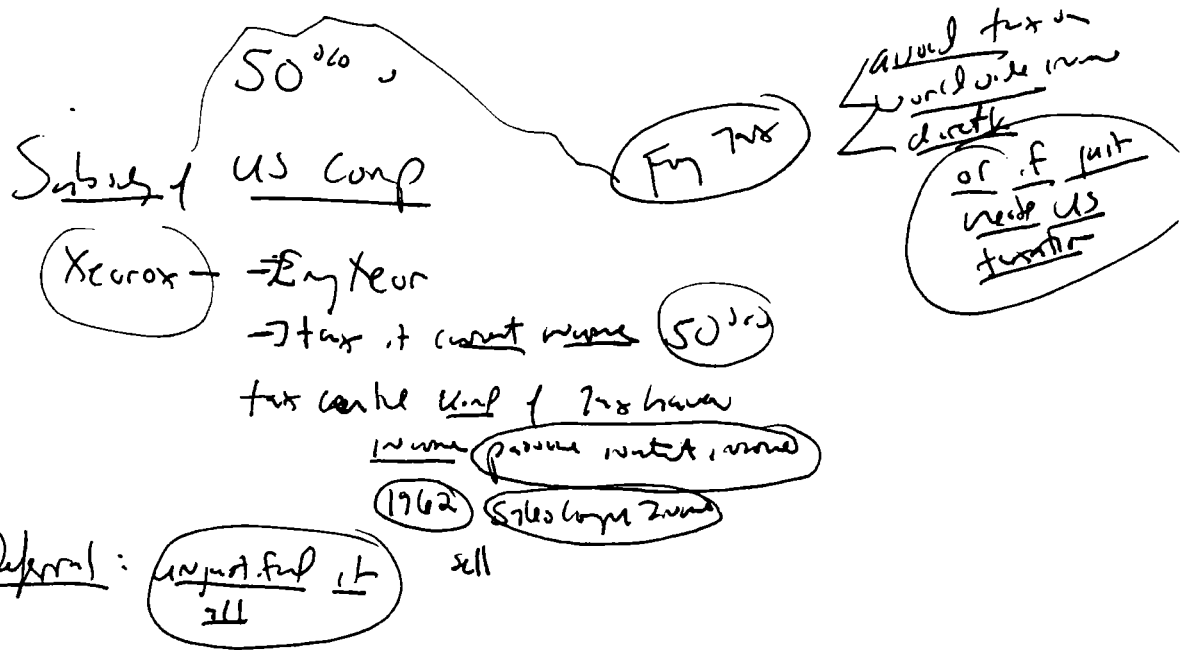
1962 - no profits

Services

\$6

5

Limit Availability of Tax Deferral



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 4971

FILE NO: 2567

7/9/96

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): 13

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jones_re@a1.eop.gov

SUBJECT: TREASURY and EDUCATION Specs on Draft Bill: Hope Scholarship Tax Credits

DEADLINE: Wednesday, July 10, 1996

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this Item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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NOTE: Specs for the budget effects associated with this proposal will be circulated separately when they become available.

**RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM**

LRM NO: 4971
FILE NO: 2567

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Treasury Draft

TUITION TAX CREDIT SPECIFICATIONS

I. Allowance of a credit:

In the case of an individual, there is allowed as a credit against the tax imposed by this subtitle for the taxable year an amount of creditable higher education expenses paid by the taxpayer during the taxable year.

II. Maximum credit amount:

(a) The amount allowed as a credit for a taxable year (under paragraph I) with respect to an postsecondary student shall not exceed:

(1) For each academic term with respect to which creditable higher education expenses are paid, an amount equal to--

(A) In the case of an postsecondary student enrolled full-time:

(i) for an academic semester, \$750, or

(ii) for an academic quarter, \$500;

(B) In the case of an postsecondary student enrolled at least half-time:

(i) for an academic semester, \$375, or

(ii) for an academic quarter, \$250; or

(C) In the case of a student enrolled for an academic term other than a semester or quarter, a appropriate fraction of \$1500;

(2) Reduced by the amount of any scholarship, grant, or other tuition assistance provided by the United States government that is exempted from income taxation by section 117 or by any law of the United States received for or allocable to such academic year or other term.

(3) The dollar amounts specified in subparagraph (1) will be adjusted for taxable years beginning after 1997 by the cost of living adjustment determined under section 1(f)(3) (substituting "calendar year 1996" for "calendar year 1992" in subparagraph (B) thereof).

(b) Limitation based on modified adjusted gross income--

(1) The amount allowed as a credit (after application of paragraph (a)) shall be reduced (but not below zero) by the amount that bears the same ratio to the credit as

(A) The excess of--

(i) the taxpayer's modified adjusted gross income for such taxable year, over

(ii) \$50,000 (\$70,000 in the case of a joint return), bears to

(B) \$20,000.

(2) The term "modified adjusted gross income" means the adjusted gross income of the taxpayer for the taxable year determined --

(A) without regard to sections 911, 931, and 933,

(B) before the application of the tuition deduction, and

(C) after the application of sections 86, 135, 219, and 469.

(3) The income phase-outs will be adjusted for taxable years beginning after 1999 by the cost of living adjustment determined under section 1(f)(3) (substituting "calendar year 1998" for "calendar year 1992" in subparagraph (B) thereof), rounded down to the nearest \$5,000.

III. Creditable higher education expenses--

(a) The term means tuition and fees charged by an institution of higher education and required for the enrollment or attendance of:

- (1) the taxpayer;
- (2) the taxpayer's spouse, or
- (3) any dependent of the taxpayer for whom the taxpayer is allowed a deduction under section 151.

as an postsecondary student at such institution. This does not include expenses for courses or other education involving sports, games, or hobbies, unless such expenses are part of a degree program.

(b) The term "postsecondary student" means a student who

- (1) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect on the date of enactment of this section,
- (2) is enrolled at least half-time for the relevant academic term,
- (3) is enrolled in one of the first two academic years of postsecondary education (based on full-time enrollment), or the substantial equivalent thereof, and
- (4) has not been convicted of a Federal or State offense consisting of the possession or distribution of a controlled substance before or during the relevant academic term.

(d) The term "institution of higher education" means an institution that

- (1) is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and
- (2) is eligible to participate in programs under title IV of such Act.

IV. Special rules:

(a) No double benefit.

- (1) No credit is allowed with respect to creditable higher education expenses of a student for an academic term if the taxpayer claims a deduction for any creditable higher education expenses of the student for such academic term.
- (2) No credit is allowed to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

(b) Limitation on taxable year credit.--

- (1) A credit is allowed for any taxable year only to the extent the creditable higher education expenses are in connection with enrollment at an institution of higher education during the taxable year.
- (2) The foregoing rule does not apply to creditable higher education expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year, or during the 1st 3 months of the next taxable year.

(c) Adjustment for certain scholarships, etc. The amount of creditable higher education expenses otherwise taken into account with respect to an postsecondary student shall be reduced (before the application of subsection () [maximum credit amount]) by the sum of

- (1) amounts received with respect to such student for the taxable year as--
 - (A) a qualified scholarship with under section 117 is not includable in gross income,
 - (B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title

38, U.S. Code, and

(C) a payment (other than a gift, bequest, devise or inheritance within the meaning of section 102(a)) for educational expenses, or attributable to enrollment at an institution of higher education, that is exempt from income taxation by any law of the United States, and

(2) the amount excludable under section 135 for the taxable year.

(d) **Grade-point requirement.**-- No credit is allowed for creditable higher education expenses in connection with enrollment after the first academic year of postsecondary education (based on full-time enrollment), or the substantial equivalent thereof, unless the postsecondary student obtained a grade point average of at least 2.75 on 4-point scale, or met a substantially similar measure of achievement, for such academic year.

(e) **Enrollment status:**

(1) A student is enrolled full-time if the student is carrying at least the normal full-time work load for the course of study the student is pursuing, as determined by the institution of higher education.

(2) a student is enrolled half-time if the student is carrying at least one-half the normal full-time work load for the course of study the student is pursuing, as determined by the institution of higher education,

V. **No Credit for married individuals filing separate returns.**--If a taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

VI. **Non-resident aliens.**--If the taxpayer or the student is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6103.

VII. **Taxpayer identification number required.**--No credit is allowed to a taxpayer with respect to an postsecondary student unless the taxpayer includes the name, age and taxpayer identification number of the postsecondary student on the tax return for the taxable year.

VIII. **Recapture of tax credits.**--

(a) If creditable higher education expenses with respect to which a credit was claimed under this section in a prior taxable year are refunded or otherwise reduced, or the taxpayer's maximum credit amount for such prior year is reduced, the taxpayer's tax under this chapter for the taxable year shall be increased by the excess of the credit the taxpayer claimed in such prior taxable year over the credit the taxpayer would have been entitled to if such refund or reduction occurred in such prior taxable year.

IX. **Regulations.**--The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring recordkeeping and information reporting.

X. Extension of procedures applicable to mathematical or clerical errors.--Section 6213(g)(2) (defining mathematical or clerical error) will be amended by adding the following new paragraph:

a failure to provide information on returns required by subparagraph __ [TIN requirement] or by regulations provided under subparagraph __ [information reporting and record keeping requirements] of section __ (tuition tax credit).

XI. Effective date: The amendments made by this section shall apply to payments made after December 31, 1996.

HOPE SCHOLARSHIP TAX CREDIT

CURRENT LAW

Taxpayers generally may not deduct the expenses of higher education and training. There are, however, special circumstances in which deductions for higher education expenses are allowed, or in which the payment of higher education expenses by others is excluded from income.

Higher education expenses may be deductible, but only if the taxpayer itemizes, and only to the extent that the expenses, along with other miscellaneous itemized deductions, exceed two percent of adjusted gross income (AGI). A deduction for educational purposes is allowed only if the education maintains or improves a skill required in the individual's employment or other trade or business, or is required by the individual's employer, or by law or regulation for the individual to retain his or her current job.

The interest from qualified U.S. savings bonds is excluded from a taxpayer's gross income to the extent the proceeds of the bonds are used to pay qualified educational expenses. To be qualified, the savings bonds must be purchased after December 31, 1989, by a person who has attained the age of 24. Qualified educational expenses consist of tuition and fees for enrollment of the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at a public or non-profit institution of higher education, including two-year colleges and vocational schools.

REASONS FOR CHANGE

A tax credit for higher education expenses combines needed tax relief with preparation for new economic imperatives. The expenses of higher education place a significant burden on many middle-class families. Grants and subsidized loans are available to students from low- and moderate-income families; high-income families can afford the cost of higher education. The combination of Federal grants and a refundable tax credit will create a Federal guarantee of a minimum amount of assistance with higher education expenses.

Well educated workers are essential to an economy experiencing technological change and facing global competition. The Administration believes that reducing the after-tax cost of education for individuals and families encourages investment in education and training while lowering tax burdens for middle-income taxpayers.

PROPOSAL

A taxpayer would be allowed a refundable credit against Federal income tax for creditable higher education expenses paid during the taxable year for the education of the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. The credit would be available for a student's first two years of postsecondary education

(assuming full-time enrollment), or the substantial equivalent. A credit would be available only for education in connection with degree or certificate programs.

Creditable higher education expenses would be defined as tuition and fees charged by an institution of higher education that are directly related to a postsecondary student's course of study (e.g., registration fees, laboratory fees, and extra charges for particular courses). Charges and expenses associated with meals, lodging, student activities, athletics, health care, transportation, books and similar personal, living or family expenses would not be included. The expenses of education involving sports, games, or hobbies would not be creditable higher education expenses unless the education is required as part of a degree program.

A credit for creditable higher education expenses would be available the year the expenses are paid, subject to the requirement that the education commence or continue during that year or during the first three months of the next year. Creditable higher education expenses paid with the proceeds of a loan generally will be eligible for the credit (rather than repayment of the loan itself). If a student or the taxpayer received a refund (or reimbursement through insurance) of tuition and fees for which a credit had been claimed in a prior year, the taxpayer would be required to recapture the excess prior-year's credit as an addition to tax in the current taxable year.

The maximum credit for a full-time student would be \$750 per semester, \$500 per quarter, or an appropriate portion of \$1500 for any other academic term, reduced by any federal educational grants, such as Pell Grants, received. The maximum credit for postsecondary students that are enrolled at least half time would be half that allowed for postsecondary students enrolled full-time. Thus, for example, a maximum credit of \$1500 (before taking federal education grants into account) would be available for the average college freshman or sophomore. Educational institutions generally would determine what constitutes full-time or half-time enrollment for individual programs. Beginning in 1997, the maximum credit amount would be indexed for inflation.

The maximum credit amount would be phased out ratably for taxpayers with modified AGI between \$50,000 and \$70,000 (\$70,000 and \$90,000 for joint returns). Modified AGI would include taxable Social Security benefits and amounts otherwise excluded with respect to income earned abroad (or income from Puerto Rico or U.S. possessions), and would be determined before the deduction for deductible higher education expenses contained in this proposal. Beginning in 2000, the income phase-out range would be indexed for inflation.

Amounts taken into account as creditable higher education expenses would not include expenses covered by educational assistance that is not required to be included in the gross income of either the student or the taxpayer claiming the credit. Thus, total tuition and required fees would be reduced by scholarship or fellowship grants excludable from gross income under section 117 of the Internal Revenue Code (even if the grants are used to pay expenses other than creditable higher education expenses).

and any educational assistance received as veterans' benefits. In addition, creditable higher education expenses would be reduced by the interest from qualified U.S. savings bonds that is excluded from a taxpayer's gross income for the taxable year. However, no reduction would be required for a gift, bequest, devise, or inheritance within the meaning of section 102(a).

A postsecondary student would be one who is enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the institution at which such student is enrolled) leading to a recognized educational credential at an eligible institution. The student must pursue a course of study on at least a half-time basis, must not have been convicted of a Federal or state offense consisting of the possession or distribution of certain drugs, and cannot be a nonresident alien. In addition, a taxpayer would not be entitled to a credit for a student's second year unless the student obtained a GPA of at least 2.75 on 4-point scale, or met a substantially similar measure of achievement, for the first year. This provision would allow institutions that do not use a 4-point grading scale to retain their own system while still allowing their students to qualify for the credit; these institutions need only determine what measure under the system they use most closely approximates a B- GPA.

An "institution of higher education" is defined by reference to section 481 of the Higher Education Act. Such institutions generally would be an accredited postsecondary educational institution offering credit toward a bachelor's degree, an associate's degree, or another recognized postsecondary credential. It could also be a proprietary institution or postsecondary vocational institution. The institution must have entered into an agreement with the Department of Education to participate in the student loan program.

This proposal would not affect deductions claimed under any other section of the Code, except that if a student's creditable higher education expenses for an academic term are deducted under another section of the Code (including the proposed deduction for deductible higher education expenses) no credit would be available for the same academic term under this provision. If a taxpayer is eligible to claim either the credit or the deduction for higher education expenses with regard to a single student for a particular academic term, the taxpayer may choose between the credit and the deduction, but may not claim both. In addition, a taxpayer may claim the credit for some students and the deduction for others. A postsecondary student would not be entitled to claim a credit under this provision if that student could be claimed as a dependent of another taxpayer.

The proposal grants the Secretary of the Treasury authority to issue regulations under this section. For example, when an institution's academic year is divided into terms other than semesters or quarters, such regulations would provide rules to determine the maximum credit amount, whether a student is enrolled in the first two years of postsecondary education, and when a student must meet the GPA requirement. In addition, the Secretary would have authority to issue regulations

providing appropriate rules for record keeping and information reporting. These regulations would be coordinated with regulations issued by the Department of Education, as appropriate.

The proposal would be effective for taxable years beginning after 1996.

Education

draft 7/8/96

**DRAFT SPECIFICATIONS
FOR ADJUSTING STUDENT FINANCIAL AID NEED ANALYSIS
TO REFLECT HOPE SCHOLARSHIP AMOUNTS**

Contents

1. Summary of current need analysis provisions
2. Explanation of need for amendments
3. Legislative Specifications

1. Summary of current need analysis provisions

A postsecondary student's "need" for assistance under Title IV of the Higher Education Act of 1965 (HEA) is generally calculated as the student's cost of attendance minus the expected family contribution (EFC), minus other estimated non-Title IV HEA financial assistance. (Federal Pell Grants, however, operate under slightly different award rules, so the amount of an individual Pell Grant is generally the difference between the maximum award and the EFC.) The income and asset information used in this calculation is typically the information for the calendar year that precedes the start of the academic year or award year (July 1-June 30) for which the assistance is sought.

The statutory formula used in this calculation is in section 475, 476, or 477 of the HEA, depending on whether the student is a dependent student, and independent student with dependents, or an independent student without dependents (other than a spouse).

If the student is a dependent student, the EFC is a combination of the calculation of the Parent Contribution (PC) and the Student Contribution (SC). The overall PC consists of the parents' contribution from income and the parents' contribution from assets. In determining the contribution from income, the family's financial resources are divided between mandatory (e.g. taxes and living expenses) and discretionary expenditures. Postsecondary education expenses are considered discretionary expenditures of family income since no State mandates education beyond the secondary level. A portion of discretionary income, calculated using marginal assessments of 22%-47%, is then considered to be available for postsecondary education expenses.

Assets are treated similarly. A portion (including the net value of the family's principal place of residence) is exempt from assessment; the remainder is subject to an assessment that ranges from 2.64% to 5.64%, depending on the level of the parent's discretionary income. Likewise, the full amount of the dependent student's income and assets are not included in the SC. The SC is comprised of 50% of the student's discretionary income plus 35% percent of his or her net assets.

If the student is an independent student, under need analysis the income and assets of the student (and his or her spouse, if any) are treated more like the income and assets of the parents or a dependent student (particularly if the independent student has dependents other than a spouse). In general, the dependent student is expected to contribute a greater proportion of his or her income and assets towards financing his or her postsecondary education, the independent student without dependents (other than a spouse) is expected to contribute a somewhat smaller share, and the independent student with dependents is expected to contribute

the least (but roughly the same share as the parents of a dependent student) among these three categories of students.

2. Explanation of need for amendments

The purpose of the amendments described below is to ensure that a student's future eligibility for Title IV, HEA assistance is not affected by his or her family's use of the HOPE Scholarship tax deduction or credit. To do otherwise would appear to give a benefit with one hand, while taking it back with the other.

It is also important to note that all of the amendments described below are necessary to accomplish this purpose. To enact only some of these amendments may result in the uneven availability of student aid to potential recipients of the HOPE Scholarships.

3. Legislative Specifications

● Adjust discretionary income for amount of tax credit: Amend each of the sections 475(c)(1)(A), 476(b)(1)(A)(i), and 477(b)(1)(A) of the Higher Education Act of 1965 (HEA) (20 U.S.C. 1087oo(c)(1)(A), 1087pp(b)(1)(A)(i), and 1087qq(b)(1)(A)) to read as follows: "the sum of Federal income taxes and the amount of any credit available under [insert name of HOPE Scholarship act and/or IRC cite], minus the refundable portion of such credit, if any;"

● Exclude tax credit from definition of total income. Amend section 480(a)(2) of the HEA by adding references to the HOPE Scholarship tax credit to the paragraph describing items not included in the definition of "total income" for title IV, HEA need analysis purposes.

● Exclude [the refunded portion of?] tax credit from definition of untaxed income and benefits. Amend section 480(a) of the HEA by adding a new paragraph (5) that would add to the definition of "excludable income" the refunded portion of a HOPE scholarship tax credit.

● Exclude [refunded portion of?] tax credit from determination of estimated financial assistance. Amend section 480(j) of the HEA by adding a new paragraph (4) similar to section 480(j)(3).

● Include the value of the deduction in the definition of untaxed income and benefits. Add a new paragraph (14) to section 480(b) of the HEA (redesignate current paragraph (14), which is a catch-all provision).



FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: *Gene Sperling*

FAX NUMBER: *456-2878*

FROM: *Pat Smith*

DATE:

TIME:

NUMBER OF PAGES: Cover + *11*

Notes:

*for 3pm mtg on
~~teacher~~ tax credits*



DEPARTMENT OF THE TREASURY
OFFICE OF TAX LEGISLATIVE COUNSEL
OFFICE OF BENEFITS TAX COUNSEL
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Number of pages: 16 (including cover sheet)

DATE: 6-25-96

TO: Patricia Smith | 395-4875 | 375-5882
Name FAX Number Confirmation Number

FROM: Clarissa Potter | 622-0999
Name

Sender's FAX number: 202/622-9260 Location: Room 4028MT

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UNCLASSIFIED

June 25, 1996

MEMORANDUM TO: Maureen McLaughlin
Patricia Smith

FROM: Clarissa Potter

RE: Issues memo on Hope Scholarships

Attached is my final draft of the memorandum for the evening.
This should be distributed to the principals.

DRAFT**MEMORANDUM**

TO: Secretary Riley
Secretary Rubin
Laura Tyson
Jacob Lew

FROM: [Working Group on HOPE Scholarship Tax Credit]

RE: Issues Raised by the HOPE Scholarship Tax Credit Proposal

DATE: June 26, 1996

SUMMARY

This memorandum briefly describes the President's legislative proposal for the tuition tax credit and then discusses the most important and difficult issues that need to be resolved to prepare a draft of the proposal. These issues are (1) coordinating the credit with grant programs, (2) implementing the B grade-point average (GPA) requirement for the second year of the credit, (3) providing for compliance with the rules for claiming the credit, and (4) paying for a freestanding bill. Preliminary options are listed for each issue, and the pros and cons of each alternative are reviewed. The memorandum also lists additional considerations that must be taken into account when drafting the legislation. Finally, the last section of the memorandum addresses the pros and cons of eliminating the refund feature of the tax credit.

THE TUITION TAX CREDIT PROPOSAL

The President's proposal would provide a refundable tax credit for tuition for the first two years of post-secondary education. The Treasury Department provided a revenue estimate based on the following description, and assumed that the legislation would include adequate compliance measures. The maximum credit would be \$1500 per year for a full-time student and \$750 per year for a half-time student. The credit would be available for tuition and required fees, and a student could claim the credit for the lesser of \$1500 (or \$750 for a half-time student) and tuition and fees actually paid. In determining the amount of the credit, tuition would be reduced by the amount of any non-federal grants or scholarships, and the available credit itself would be reduced by any Pell Grant or other federal grant or scholarship. The credit would be indexed for inflation.

To qualify for the credit, a student cannot have been convicted of certain drug-related felonies and must be enrolled in a degree or certificate program at an accredited college,

7pm June 25, 1996

university, or other postsecondary institution that is eligible for Department of Education student aid programs. A second year's credit would be available only if the student earned a grade point average of B or higher for the first year.

The credit (like the deduction) would be phased out for married taxpayers with adjusted gross incomes between \$80,000 and \$100,000 (\$50,000 and \$70,000 for individual filers). If the student is a dependent under existing tax rules (i.e., if a parent could claim the child as a dependent for tax purposes), the credit would have to be claimed by the parents, who would be subject to the income phase-out ranges. The phase-out ranges would be indexed for inflation.

For the first two years a student attends college, a taxpayer could claim either the tuition credit or the \$10,000 tuition deduction provided in the President's budget, but not both. Because the tuition tax credit would be available on a per-student basis, taxpayers with more than one eligible student could claim more than one credit. The tuition deduction, by contrast, is limited to \$10,000 (\$5,000 in 1997 and 1998) per household, regardless of the number of eligible students in the household. The tuition deduction, as proposed in the budget, would be available for students who do not qualify for the credit, such as students who are not in their 13th or 14th years of education or who do not meet the GPA requirement.

Although descriptions of the proposal have not made it entirely clear, drafting the proposal will highlight the fact that the credit will be available only upon filing a tax return. Thus, the credit will not be available until after students' tuition bills are due.

MAJOR ISSUES

(1) Coordination with Grant Programs

Coordination with non-federal grants. The revenue estimate assumed that tuition for which the credit could be claimed would be reduced by non-federal scholarships and grants provided by states, institutions and others. This is the same approach taken by the \$10,000 tuition deduction proposed in the budget. Thus, if the amount of tuition paid by a full-time student, after taking into account non-federal aid, was less than \$1500, the student's credit would be limited to the lower tuition amount. This would reduce or eliminate the credit available to some students, especially students attending a community college or other 2-year institution where tuition is lower. Consequently, non federal sources may be discouraged from continuing to provide grants at their current levels. The original description of the proposal stated, however, that we intended to coordinate the tuition tax credit with other, non-federal programs, such as Georgia's HOPE scholarship program, that are intended to cover the same tuition expenses. The issue is how the tax credit proposal can be crafted to achieve the desired coordination without substituting for other sources of aid.

Option 1: Follow the proposal as estimated--subtract all non-federal scholarships and grants from tuition, and encourage those states that provide grants for tuition in full to shift from

providing tuition assistance to paying for other costs of attendance and for tuition beyond the first two postsecondary years.

Pros:

- If non-federal assistance programs continued at the current level, students would get help with additional tuition or other costs of attendance.
- Additional federal assistance provided by the proposal could not be characterized as providing students with income maintenance.

Cons:

- States and institutions are likely to reduce their assistance, since students could receive aid through the tax credit. (This would not affect the revenue estimate, which assumed a certain amount of reduction.)
- Would result in states revising politically popular tuition assistance programs so their students can be eligible for the tax credit.
- If non-federal grants were shifted to costs other than tuition, books and equipment, the grants would be taxable to the student. Changing the taxability of this assistance would increase the estimated cost of the proposal.
- Payments for non-tuition expenses might be characterized as income maintenance, which could raise political concerns.

Option 2: Do not reduce tuition expenses by non-federal scholarships and grants for purposes of calculating the tuition tax credit.

Pros:

- Students could use the total assistance to pay not only tuition, books and equipment, but also other costs of attendance.
- The tuition tax credit would not have primacy over other tuition assistance programs so the programs would be less susceptible to characterization as income maintenance.

Cons:

- Increases the estimated cost of the proposal.
- States and institutions may reduce their assistance somewhat even with the exclusion.
- Students in states that support education with free or low-cost tuition would get no additional assistance, while students in states that support education with high levels of tuition and student aid would benefit.
- Students could get total aid in excess of their total costs.

Coordination with federal grant programs. The revenue estimate assumed that the amount of the credit available would be reduced by the amount of any federal educational grant, such as a Pell Grant.

Option: Treat federal education grants like non-federal assistance: instead of reducing the available credit by the amount of the federal grants, apply the amount to reduce the tuition for which a credit can be claimed.

Pros:

- Provides additional aid to low-income students (who are most likely to receive Pell Grants or other federal aid).
- Is consistent with the way federal grants are treated in the tuition deduction proposal.

Cons:

- Increases the estimated cost of the proposal.
- Only helps students whose tuition exceeds the credit amount.

Option for coordinating tax credit with both federal and non-federal grants: The option would allocate grant money between tuition and non-tuition expenses for purposes of calculating the tuition tax credit to reflect the fact that most federal and non-federal aid is intended to assist with all the costs of higher education. Education grants would be prorated according to the portion estimated to represent tuition and the portion estimated to represent other expenses. Because the actual portions going to tuition and non-tuition expenses are unknown, the proration would be made on the basis of the type of institution the student attends--the more expensive the type of institution, the greater the portion of the education grant allocated to tuition expenses. Then, only the portion allocated to tuition would be taken into account for purposes of calculating the amount of the tax credit.

Pros:

- Adjusts for the fact that education grants pay for tuition as well as living costs.
- Addresses criticism that proposal assumes all education grants pay for tuition.

Cons:

- Increases the estimated cost of the proposal.
- Makes calculating the credit even more complex.
- Creates inconsistent tax treatment of education grants: it would treat amounts allocated to living expenses for purposes of the credit as tuition expenses for purposes of exclusion from income.
- Because we do not know what portion of assistance actually covers tuition, the proration formula would have to be based on estimates, and would not reflect the actual use of the assistance.
- Highlights the problem that a portion of education grants should be currently taxable but is not being reported.

(2) GPA Requirement

The proposal requires that a student achieve a B grade-point average or better to be eligible for the second year of the tax credit. In making the proposal we recognized that requiring students to satisfy a GPA requirement raises a host of administrative issues. But the requirement was included because of revenue concerns and to emphasize the President's theme of responsibility, opportunity, and encouraging students to meet high standards. The issue is how this requirement should be implemented. (Note: students who do not satisfy this requirement would still be eligible for the tuition deduction.)

Option 1: As was done for the revenue estimate, define a B GPA as a 2.75 GPA, based on a 4-point scale. (Alternatively, a B could be defined as 3.0 average--this would reduce costs, but would withdraw the credit from some students. The Department of Education estimates that 15% of full-time, second-year students have GPAs between 2.75 and 3.0.) Require schools that do not use a 4-point grading scale to establish by some other method whether a student's performance is equivalent to a 2.75 GPA.

Pros:

- Reflects assumptions made in revenue estimate.

Cons:

- Will attract significant criticism from the higher education community because of federal intrusion into internal academic issues, and would impose significant additional burdens on schools.
- If schools are required to report grades to a federal agency significant privacy concerns may arise. Requiring such reporting may violate the Family Education Rights and Privacy Act and other privacy laws.
- Does not insure that students have a uniform minimum level of achievement: schools grade differently, and would react to the GPA requirement differently.
- May not accommodate schools that use alternative measures of performance, such as pass/fail systems, or that do not provide grades.

Option 2: Do not provide a definition of a B GPA and rely on students to evaluate whether they meet this requirement.

Pros:

- Imposes no additional burdens on schools.
- Creates no privacy concerns.

Cons:

- Lacks uniformity.
- Without additional guidance students could be uncertain about whether they qualify. Could lead students not entitled to the second year's credit to claim it anyway. Might dissuade deserving students from claiming the credit.
- Could increase the estimated cost of the proposal.

(3) Providing for Effective Compliance

The revenue estimate assumes adequate measures to insure compliance. We need to protect against the kind of fraud and abuse that the other refundable credit, the EITC, has been subject to. In addition, since the proposal requires students to satisfy a number of requirements before they can qualify for the credit, we must ensure that students have enough information to be able to claim the correct credit.

The proposed statutory language for the tuition deduction does not address information reporting in detail. The draft provides that "[t]he Secretary may prescribe such regulations

as may be necessary or appropriate to carry out this section, including regulations requiring record keeping and information reporting."

Option 1: Draft the tax credit legislation in a manner consistent with the proposed tuition deduction legislation. Thus, the legislation would give a general grant of authority to the Treasury Department to issue regulations, but would not address specifics.

Pros:

- Consistent with draft of tuition deduction legislation, so should not draw too much attention to the issue during the legislative process.

Cons:

- Unless the IRS promptly issues detailed regulations requiring information reporting, there will be no assurance of compliance. The less detailed the information required, the less protection there will be against fraud and abuse.
- Students may be unable to determine the amount of the credit they can claim unless the IRS issues regulations specifying information to be provided by schools.
- It is likely that any information reporting regulations would be strongly opposed by the higher education community on the grounds that the regulations would create significant burdens, and impose substantial new costs, without providing a direct benefit to the schools.
- A failure to provide record keeping and information reporting regulations could subject the Administration to substantial criticism for allowing the tax system to be abused (as was the case for the EITC).
- If the Joint Committee on Taxation believes that the draft legislation does not provide the Treasury Department with adequate authority to issue information reporting and record keeping regulations, or that the IRS will delay issuing the regulations, it may significantly increase the estimated cost of the proposal.
- The IRS would receive personal information regarding students, perhaps even for those who do not claim the credit: this is a problem because of the current level of concern about privacy and the improper release of personal information.
- The Department of Education or the IRS would have to integrate additional data from other departments on federal aid, drug felony convictions, etc. so that the IRS could use the data in conjunction with its general taxpayer database.
- The regulations may raise unfunded mandate and Paperwork Reduction Act issues, and would likely be inconsistent with the goal of the Paperwork Reduction Act to minimize burdens on the public.

Option 2: Provide for no grant of authority to the Treasury Department to issue information reporting or record keeping rules. Instead, require (or encourage) schools to make information available to students regarding their eligibility for the credit when the students request the information. May be possible to perform some compliance checks through the Education Department's student-based systems.

Pros:

- Imposes less additional expense or administrative burden on schools and taxpayers than the previous option.
- Reduces complaints from higher education community and taxpayer groups about administrative burdens and complexity.
- Does not raise concerns about security of personal information.
- Less likely than Option 1 to raise unfunded mandate or Paperwork Reduction Act issues.

Cons:

- May significantly increase the estimated cost of the proposal. The estimate prepared by Treasury assumed information reporting to ensure compliance.
- Students may have trouble obtaining the information necessary to claim the correct credit.
- Will subject tuition tax credit to significant criticism for being susceptible to fraud, as was the EITC.
- Any attempt to control fraud and abuse will require IRS to engage in costly and time-consuming face-to-face audits. Similar audits proved to be useless in recovering improper EITCs.

(4) Paying for a Freestanding Bill

If we were to introduce a freestanding bill, what would we use to pay for the credit and the deduction? (The revenue offsets identified in the June 4 announcement cover only the incremental cost of adding the credit to the existing deduction proposal. The bulk of the total cost is covered by revenue savings in the entire budget.)

**ADDITIONAL FACTORS TO CONSIDER
IN DEVELOPING TIMELINE FOR DRAFTING**

(1) Consultation with the Higher Education Community

We held an informational meeting with representatives from the major higher education groups and explained that we were beginning to develop the details of the proposal. The representatives indicated that they had not yet had an opportunity to meet among themselves and discuss their views on the proposal and formulate questions and comments for our consideration. Although we cautioned them that we did not know the

timetable for further development. they will be displeased if details are developed without consulting with them and giving them a chance to comment.

(2) Consultation with the IRS

We have consulted with the IRS on a preliminary basis about the compliance and administration issues associated with the proposal. The most important concerns are discussed in Issue #3 above. However, many of other issues remain to be discussed with the IRS. We have no clear picture yet of the potentially significant administrative costs of developing new information matching systems and processing additional information on forms. Moreover, there is no provision for these costs in the current IRS budget.

(3) Effect on Determination of Eligibility/Financial Need for the Federal Student Aid Programs

The tuition tax credit must be coordinated with the standards for determining eligibility for financial aid programs. Eligibility for financial aid programs (grants, loans and work-study) authorized by Title IV of the Higher Education Act (HEA) is inversely related to income—students from lower income families are typically eligible for larger awards. Under the current interpretation of the HEA, the tuition tax credit would decrease future Title IV eligibility by increasing discretionary income. Thus, changes in the formula for determining Title IV eligibility under the HEA would have to be made in connection with the enactment of the tuition tax credit and deduction to prevent substitution of tax benefits for federal financial assistance.

(4) Complexity

Drafting the tuition tax credit legislation will raise many issues of complexity. We believe that the legislative draft should use Higher Education Act definitions of terms wherever feasible, such as determining full- or part-time enrollment status and defining eligible institutions and programs. Assuming that we use these definitions, we will need to develop rules to address differences between academic years and calendar years, variations in students' enrollment patterns and other issues relating to the amount and timing of the tuition tax credit a taxpayer can claim. While we will pursue the goal of providing the credit to taxpayers in a simple and timely manner, some complexity will be required to implement the proposal within the limits of the revenue estimate.

(5) Additional Issues

A thorough study will have to be made of other federal statutes that may need to be amended to coordinate with the tuition tax credit. To date, we have identified the need to review Privacy Act implications of providing student academic records to the IRS and potential problems under the unfunded mandate legislation were state colleges and universities to be required to provide information reporting. We would also want to review how the tuition tax credit would interact with federal educational programs not administered

by the Department of Education, like the National Health Service Corps scholarship program, the National Service educational benefit, the Public Health Service and various military scholarship programs.

ELIMINATE REFUNDABILITY FEATURE OF TAX CREDIT

The tax credit proposal includes refundability to emphasize the guarantee notion that is central to the proposal. Because a guarantee is provided through a combination of grants and the tax credit, most low-income persons who would benefit from a refundable tax credit may not receive a credit under this proposal because they receive other grant aid. For example, the average Pell Grant for an academic year is now almost \$1,600 and is projected to increase to \$1,950 in 2002. Some students who are eligible for Pell Grants do not apply or receive them, thus they might receive a tax credit under this proposal. It would make sense to encourage these students to utilize Pell Grants rather than tax credits because they would receive Pell Grants at the time they enrolled in school rather than after they had already paid their tuition. This would, however, increase Pell Grant costs.

In light of these considerations, it may be worth reconsidering whether to provide a refund of the tuition tax credit. Eliminating the refund feature would reduce the concerns about fraud and abuse that have arisen in the context of in the earned income tax credit, which is also refundable. Eliminating the refund might reduce the need for burdensome tax information reporting and record keeping requirements. In addition, it would reduce the estimated cost of proposal.

On the other hand, making the credit non-refundable could spark criticism that the proposal does not help the poorest students, even though these students would receive Pell Grants. Many people focus on the credit portion of the proposal without focusing similar attention to the Pell Grant program. In addition, removing the refund feature would be inconsistent with the President's initial proposal, and might dilute the message that the President's education package is intended to serve low-income families as well as middle-income families.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Gene Sperling, National Economic Council

ORGANIZATION: The White House

PHONE NUMBER: 456-2620

FAX NUMBER: 456-2878

FROM: Leslie Thornton, Deputy Chief of Staff and
Counselor to the Secretary

PHONE NUMBER: 401-3001

MESSAGE:

Jason
Re: Hope Scholarship OP EP
- Our discussion

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2 **PAGE(S) TO FOLLOW**

OP ED

by

RONALD J. TEMPLE
CHANCELLOR
City Colleges of Chicago

To The Editor
Washington, D.C.

President Clinton's announcement of the proposed Hope Scholarship Plan is one of the most significant pieces of educational legislation since the GI Bill. That bill, which enabled hundreds of thousands of Americans to advance their education, laid the foundation for a whole generation of Americans to enter into the middle class. Now, that middle class is being threatened with a system of higher education whose costs have far outdistanced most families' ability to pay.

The most significant feature of the President's proposal is that a working family will now be able to receive a \$1500.00 tax credit toward the education of a family member or a dependent for two years upon maintaining a "B" grade point average (GPA). This is a splendid concept.

First, it is a tax credit, in other words, a dollar for dollar return on each dollar the family invests. This will be a real benefit and incentive for the middle class to participate. This proposal directly encourages an individual to invest in himself/herself.

The second most important feature is that it places a substantial responsibility on the individual. Asking the student to maintain a "B" GPA will require a seriousness of mind so that the student will not take this benefit lightly. The proposal juxtaposes benefit with responsibility, opportunity with academic rigor. These are virtues that too often have been lost in our educational debates, and deserve the reinforcement this program will provide.

I am further convinced that this proposal will pay for itself many times over. The GI Bill exponentially increased the size of the middle class. Not only did it produce a world class workforce, it created the middle class that paid the taxes which financed our nation's growth and prosperity. The Hope Scholarship Plan has the potential to exert similar influence. A prosperous and thriving middle class will provide a far greater return than our initial investment.

As Chancellor of the City Colleges of Chicago, the second largest community college system in the nation, serving almost 200,000 students, I am very much aware of the importance of this proposed legislation and its potential impact on a city such as Chicago. We have literally thousands of young, and not so young, people walking the streets of Chicago whose family income is too high to receive financial aid, but have too little discretionary income to afford to set aside any savings for post secondary education. This condition is not unique to Chicago; it can be replicated in virtually every city in the country.

We know that 80% of the jobs that will be created between now and the year 2010 will require some form of post secondary education. The shelf life of a baccalaureate degree is less than 2.5 years. More so than ever, education has become a lifelong experience. Without a strong initial start, this and future generations of the middle class will forever lose an opportunity to participate in what really is an international economic restructuring. Our ability to maintain our competitive edge as a nation can be lost if we do not position this generation of Americans to take advantage of every opportunity possible.

Just for once, let us move this issue off the agenda of partisan political debate and critique the idea on a nonpartisan base, ie on its merits. This is not a conservative or liberal cause, but one which truly addresses a vital need that speaks to the need of most Americans, regardless of their political orientation. Millions of Americans are asking our political leaders to put partisan politics aside and do what's good for America. President Clinton's Hope Scholarship proposal is the type of idea which should go forward with all of us united.

The Hope Scholarship program can be implemented without creating a new federal bureaucracy and incurring major new administrative costs for the government. I urge our political leaders, together, to take this issue to the public and follow one of the basic tenets of our democracy: Listen to the People.

**Ronald J. Temple
Chancellor**

**RJT:del
June 11, 1996**



DEPARTMENT OF THE TREASURY
OFFICE OF TAX POLICY
DEPUTY ASSISTANT SECRETARY
(TAX POLICY)

1500 Pennsylvania Avenue, N.W.
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(including cover sheet)

DATE: 6-19-96

TO: Gene Sperling | 456-2878 | _____
Name FAX number Confirmation number

FROM: Glen A. Kohl, Deputy Assistant Secretary | 202/622-0140
Name Confirmation number

Sender's FAX number: 202/622-8784 Location: Room 3108MT

Comments/Special Instructions: _____

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UNCLASSIFIED

WEDNESDAY, JUNE 19, 1996

Tax Report

A Special Summary and Forecast Of Federal and State Tax Developments

PREPAID TUITION PLANS get a boost from the Treasury.

College costs probably will more than double by 2010, lifting the four year tab at a public college to \$107,906 and at a private college to \$225,467, says T. Rowe Price Associates, a Baltimore investment company. To help protect parents, some states offer prepaid tuition plans, and others are studying the idea. While details vary from state to state, parents typically make advance payments to a fund that invests the money and agrees to help protect them against rising tuition costs.

Many tax questions remain unclear, such as when investors might owe taxes. Lately, some advisers feared the IRS was about to take a position that would hurt the popularity of these plans. Relax, Treasury officials now say. New Treasury regulations designed to tax debt instruments linked to derivatives say that, in the case of prepaid tuition plans, no tax will be owed until money is withdrawn.

Treasury officials also are working with the Senate Finance Committee on a measure to help clarify the subject.

ITEMIZED DEDUCTIONS rose slightly on 1994 tax returns.

Total itemized deductions rose only about 0.5% on 1994 individual income-tax returns, according to a new IRS report. Deductions for taxes and gifts increased, but interest and medical deductions fell. Using the new IRS data, Research Institute of America, a New York-based tax publisher, once again has calculated average deductions for each major category.

An annual reminder: These are merely averages, not an indication of what the IRS considers acceptable. The average deductions are based on adjusted gross income. Medical deductions have been omitted since few people have enough to qualify:

Income (-000)	Taxes	Gifts	Interest
\$ 20-40	2,815	1,388	5,124
\$ 40-50	3,387	1,536	5,887
\$ 50-75	4,421	1,718	6,345
\$ 75-100	6,268	2,315	7,746
\$ 100-200	9,773	3,420	10,288
\$ 200-500	22,086	8,377	17,488
\$ 500-1,000	58,894	21,588	28,866
\$ 1,000+	158,628	109,528	63,047

MANY CHARITIES FRET over how to comply with record-keeping rules.

"There is a lot of confusion" among small charities about the proper wording when acknowledging contributions, says Victoria B. Bjorklund, a New York lawyer at Simpson Thacher & Bartlett. IRS Commissioner Margaret Milner Richardson agrees and vows to help. "We probably have to do more" to educate tax-exempt groups on this issue, Ms. Richardson says. "It's been a real problem for smaller charities. We need to get out some kind of model statement."

More IRS guidance would be "wonderful," says Ellen McCreery, a certified public accountant in Washington. The law says that if you donate \$250 or more, the charity is supposed to acknowledge your gift, report if you got anything in return, such as a meal, and estimate its value. Canceled checks aren't enough.

If a donor gives more than \$75 and gets something in return, the charity must say so in writing and also must say how much can't be deducted.

TAX-AMNESTY UPDATE: Rhode Island has collected more than \$76,500 from an amnesty that runs through June 28. Payments have ranged from 87 cents to \$74,141. New Jersey, whose amnesty ended June 1, raked in \$360 million.

TAX-EXEMPT BONDS and funds draw growing numbers of investors, new IRS statistics show. A record 5.1 million individual tax returns reported tax-exempt interest for 1994, up 8.4% from 1993, says the Public Securities Association, a New York-based trade group. Nearly two-thirds had taxable incomes under \$75,000.

SECOND THOUGHTS: More people are filing amended income-tax returns. An IRS report projects 2,227,000 Form 1040X returns will be filed this year. That would be up slightly from an estimated 2,159,000 last year and 2,141,000 in 1994.

A TREASURY PLAN is designed to encourage more small-business investment.

A provision in the 1993 tax law says investors typically owe tax on only half of capital gains on sales of certain qualified small-business stock held for more than five years. There are numerous restrictions. For example, the break applies only to stock originally issued after Aug. 10, 1993, and investors must have purchased the stock at its original issue.

A proposed new Treasury regulation answers some questions about how to interpret the law. The new rule would allow certain redemptions without jeopardizing favorable capital-gains tax treatment. The Treasury says these regulations are proposed to be effective when published in final form.

A senior Treasury official adds: "It is expected that once the wording is finalized in response to public comment, the relief will generally be available retroactively."

BRIEFS: Membership in the American Bar Association tax section shrank to about 21,800 as of March from nearly 24,000 three years earlier, but membership is up slightly from 20,940 a year ago. . . . Sign of the times? "Tax Tales," a game resembling pin-the-tail-on-the-donkey, was created by California architect Christopher Colvin as a reminder of Clinton's 1993 tax increases. Initially priced at \$15, it recently was selling in a Washington D.C. store for only \$2.99.

- TOM HERMAN



DEPARTMENT OF THE TREASURY
OFFICE OF TAX POLICY
DEPUTY ASSISTANT SECRETARY
(TAX POLICY)

1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Number of pages: 3
(including cover sheet)

DATE: 6-17-96

TO: Glen Sperling | 456-2878 | _____
Name FAX number Confirmation number

FROM: Glen A. Kohl, Deputy Assistant Secretary | 202/622-0140
Name Confirmation number

Sender's FAX number: 202/622-8784 Location: Room 3108MT

Comments/Special Instructions: FYI

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C - 2 (No. 116)

TAXATION, BUDGET AND ACCOUNTING

(DTR) 6-17-96

foreign tax authorities would quietly accept a radical change in U.S. tax policy, such as a switch to a consumption tax system. "I wonder how violent their reaction would be," he said, noting that several treaty partners embraced the arm's-length principle only after an extensive campaign by the United States.

Quigley said a change to a consumption tax could effectively nullify the current U.S. tax treaty network, causing damage not only to competent authority procedures, but related processes, such as advance pricing agreements.

The attorney said problems addressing double taxation disputes could greatly increase under a consumption tax. For example, a Japanese manufacturer of televisions sells a product through a U.S. affiliate-distributor with a wholesale price of \$300 and a retail price of \$500, Quigley said. Under the current system, the Japanese parent would pay taxes to the Japanese government on the \$300 in income from the related-party transaction and the U.S. affiliate would pay taxes on the \$200 profit from the retail sale.

However, under a consumption tax, the United States would expect the U.S. affiliate to pay taxes on the entire \$500 retail price, Quigley said.

Problems would arise if the Japanese government expected the Japanese parent to pay taxes on the \$300, regardless of what the U.S. affiliate was paying the United States, he said. Quigley questioned whether Japan would accept the Japanese parent not paying any taxes on the transaction.

The competent authority process would be hamstrung in dealing with that type of conflict, Quigley added. When U.S. competent authority officials asked the taxpayer what is the income that is subject to double taxation, the U.S. affiliate conceivably could say zero, he said.

Newlon said the competent authority process still would be a viable route for both governments to decide how to split the taxable income. □

— By Mitchell J. Tropin

Tax Legislation

TREASURY PUSH FOR BILL ON STATE TUITION PLANS HELPS LIFT TAX CLOUD, EXPERTS SAY

The Treasury Department's recent announcement it will seek legislation clarifying the tax treatment of state-sponsored prepaid tuition plans is an important step toward offering needed tax guidance and heads off some tentative adverse rulings Internal Revenue Service officials had developed in the area, industry sources told BNA June 14.

"This will open the door for other states" to begin programs in addition to the nine that already have such plans, said Sheldon Steinbach, general counsel for the American Council on Education, who added that 13 more states have plans under consideration. "Lifting the cloud over the tax treatment of these plans will make them much more attractive" to investors.

"We definitely need congressional action. It's important we deal with this," said William Montjoy, the executive director of Florida's prepaid tuition program. "We don't want to think everything is fine and

then three or four years later have another issue cropping up."

Although the types of programs vary, the plans generally are created by states to allow participants to save for the cost of a college education for themselves or their children. The participants make advance payments to the state in return for a guarantee that their future tuition costs will remain stable.

Week's Developments

Treasury announced June 11 it would begin working with Congress to develop legislation clarifying the way prepaid tuition plans are treated for tax purposes, the same day that IRS said in Revenue Procedure 96-34 it would not be issuing advance rulings or determinations in the area (113 DTR G-1, 6/12/96).

One day later the Senate Finance Committee approved legislation clarifying the tax treatment of both the entities administering the programs and the plan participants (114 DTR CG-1, G-5, L-6, 6/13/96).

And in another related development, program advocates said they were pleased IRS gave them comfort on a troubling issue when it announced that prepaid tuition plans are not subject to regulations under Section 1276 related to original issue discount debt instruments with contingent payments (113 DTR G-2, L-2, 6/12/96).

"So many good things have come together this week," said Barbara Jennings, the executive director of the Ohio Tuition Trust Authority. Jennings said her agency has spent years trying to get clarification on the tax issues surrounding the programs, having first requested a ruling from IRS on those issues in 1990.

IRS' failure to answer those questions had left the Ohio plan and others in limbo, and "that limbo status had really left a cloud over the programs," said Jennings, who also chairs the College Savings Plan Network, a national organization representing prepaid tuition programs.

IRS officials recently had told some of the states involved that they had developed tentative adverse positions on the tax issues surrounding the plans, said Howard Levenson, a partner in the Washington office of Ernst & Young. Levenson said the decisions were, however, extremely preliminary and the officials were willing to discuss them further with the states.

Thus Rev. Proc. 96-34, the Treasury announcement, and Finance's action are "developments that all have to be regarded as positive" for the state plans, Levenson said.

Finance Committee Bill

The Finance Committee's bill, meanwhile, would clarify that the trusts set up by states to hold the funds contributed by participants are tax-exempt and participants may defer paying tax on the value of their contributions until the beneficiary begins attending school.

A Treasury spokesman said the department has not issued a formal position on the legislation. The spokesman noted the bill clears up some of the tax issues surrounding the tuition plans, but does not clarify

6-17-96 (DTR)

TAXATION, BUDGET AND ACCOUNTING

(No. 116) G-3

whether the arrangements provided for under the plans should be regarded as debt instruments or service contracts under the tax law.

Although several industry officials said they were pleased by the week's developments, some said they were skeptical about Treasury's announcement, particularly because it came in the middle of a presidential election campaign.

"This is another election-year ploy," said one lobbyist.

"They had to respond to the issue, given the amount of press it had received," said a practitioner in Washington who requested anonymity. "It dawned on them it would be a great thing to get out in front on it in an election year." □

— *By Joan Pryde*

U.S. Budget

HOUSE PANELS COMPLETE ACTION ON FIRST RECONCILIATION BILL; SENATE DELAYED

The first fiscal 1997 budget reconciliation bill, which consists of Medicaid and welfare reform, is moving through the House committees according to the schedule set out by the budget resolution (HConRes 178), but the process could be delayed by at least a week in the Senate.

The Senate cleared the conference agreement on the budget resolution June 13, a day after the House narrowly passed the measure (115 DTR G-7, 6/14/96).

With less than two months left before the August recess, lawmakers will be scrambling to send the reconciliation bills, as well as the 13 appropriations bills, to the president. Congress plans to recess for a month starting in early August, return in September, and adjourn in early October for the rest of the year.

The House Commerce Committee passed a Medicaid bill late June 13 meeting its savings target of \$72 billion recommended in the budget resolution through changes in that program over six years. The budget resolution instructs authorizing committees in the House to submit Medicaid and welfare reconciliation bills by June 13.

The House committees on Ways and Means, Economic and Educational Opportunities, and Agriculture have passed their portions of the welfare reconciliation bill, reaching the total savings target of \$53 billion over six years outlined in the budget resolution.

The budget resolution instructs committees to submit legislation, or reconciliation bills, that would implement changes in mandatory spending and revenues to reach aggregate targets outlined in the report. The budget resolution itself is not binding and is not enacted into law.

The House Budget Committee tentatively plans to hold a markup of the Medicaid and welfare package early in the week of June 17. The package would then be sent to the House Rules Committee, which will set the rules for floor debate, and to the House chamber for a vote, possibly around the last week of June.

Senate Finance To Act By Last Week of June

The Senate Finance Committee will not begin marking up the welfare and Medicaid reconciliation bills until the last week of June, according to a committee aide. The budget resolution, however, instructs the committee to submit the legislation by June 21.

The budget committees cannot make substantive changes to the reconciliation bills, but stitch together the separate pieces of the bills and send them to the Rules Committee in the House, or directly to the floor in the Senate.

Under this year's budget strategy, the first reconciliation bill will include Medicaid and welfare reform, the second would include Medicare reform, and the third bill would include tax cuts.

If authorizing committees fail to meet the recommended savings targets under the budget resolution, the budget committees could become involved in writing legislation to produce the required savings. During last year's budget reconciliation process, the House Agriculture Committee defeated legislation that would produce the necessary savings, prompting GOP leaders and budget committee staff to insert the bill anyway into the reconciliation package that was sent to the president. □

— *By Vandana Mathur*

Tax Treaties

U.S. STILL UNCERTAIN IF SOUTH AFRICAN TAX WILL BE CREDITED TOWARD U.S. TAX

The United States still has not determined whether a tax that South Africa imposes on multinationals will be credited toward U.S. tax, a Treasury Department official told BNA in a June 13 interview.

The tax, called the Secondary Tax on Companies, is a revenue raiser and is imposed on companies operating in South Africa. The tax is responsible for slowing tax treaty negotiations because Treasury and U.S. companies would have preferred to see it eliminated (33 DTR G-1, 2/20/96).

Although elimination is unlikely, the STC has been reduced to a 12.5 percent tax on corporate income from 25 percent since it was first introduced (51 DTR G-2, 3/15/96).

Whether the STC could be credited toward U.S. tax is still under deliberation, the Treasury official said.

"We still have not determined whether the STC is a problem," the official said.

A U.S.-South Africa tax treaty signed in 1947 was terminated eight years ago in accordance with the Comprehensive Anti-Apartheid Act of 1986. The two countries began renegotiating a tax treaty in 1994 (108 DTR J-1, 6/8/94).

The Treasury official said the two countries need to hold another round of talks, the date of which is yet to be determined. □



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Gene Sperling, National Economic Council

ORGANIZATION: The White House

PHONE NUMBER: 456-2620

FAX NUMBER: 456-2878

**FROM: Leslie Thornton, Deputy Chief of Staff and
Counselor to the Secretary**

PHONE NUMBER: 401-3001

MESSAGE: Per my conversation with Dan

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

June 14, 1996

MEMO TO: **LESLIE THORNTON**
 FRANK HOLLEMAN
 DAVID FRANK

FROM: Terry Peterson

Attached is a short op-ed that Bill Friday would be happy to submit.

Bill is a former chancellor of the North Carolina university system and is considered one of the foremost leaders in higher education. This op-ed is relative to Gene Sperling's request for some respected higher ed people to sign on to the President's proposals.

I am sure that, should we want him to mention specific programs, Mr. Friday probably would do so.

Please advise me as soon as possible because Bill likes to get things done expeditiously.

Attachment

As a World War II veteran I benefited greatly from the G.I. Bill. That federal assistance grant gave me access to university study and the opportunity to qualify myself to be a useful, productive citizen.

The success of the G.I. Bill leaves little doubt as to the critical role such federal financial assistance must play to insure the nation's future. We must provide the nation the power of its developed human resources through the education of its youth who are willing to work and study and the retraining of older citizens.

Most new jobs and positions to be created early in the next century in our country will require at a minimum at least two years of community college experience. It is unwise in the extreme not to prepare for this economic and educational reality. It is still true that our nation's greatest resource is its people, especially its youth. It necessarily follows that the nation's economic security, its future global competitiveness and its well being as a moral force in the world will depend upon access to greater learning and access to retraining throughout a lifetime for thousands more of our citizens.

President Clinton's proposals not only build on the established critical role of federal financial assistance; they provide a yet stronger set of important options intended to help citizens of all ages, regardless of circumstance, to get some post high school experience to qualify themselves for constructive citizenship.

The President's options will protect and enhance access to and opportunity for higher education for those Americans willing and qualified to seize it. He deserves our strong support.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

FAX TRANSMITTAL

Jason
TO: Gene Sperling, National Economic Council

ORGANIZATION: The White House

PHONE NUMBER: 456-2620

FAX NUMBER: 456-2878

**FROM: Leslie Thornton, Deputy Chief of Staff and
Counselor to the Secretary**

PHONE NUMBER: 401-3001

MESSAGE: Re. Ed Amodeo. Hope so far

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3 **PAGE(S) TO FOLLOW**

DRAFT

HOPE SCHOLARSHIP/ED AMPLIFICATION

(Update as of 6/14/96)

DATE	EVENT/SPEAKER	MEDIA/PRESS/OP-EDS	CONSTITUENCY SUPPORT/OUTREACH	PAPER DISTRIBUTION/ OTHER	POTENTIAL FORUMS/UPCOMING EVENTS
6/4/96		Riley News Conference (covered by ABC, NBC, CBS, CNBC, Fox News, USA Today, Washington Post, AP, New York Times, News House/Jim Lehrer, ED papers).		Riley Briefed Higher Education Secretariat at ACE/30 Association CEO's; distributed WH 16-pager	
6/4/96		Responded to follow-up calls from non-attending media from Columbus Monthly Magazine, Newark Star-Ledger, WFL-AM/New Orleans talk radio, New Orleans Times-Picayune editorial board, Atlanta Journal-Constitution.		POTUS Princeton Speech/Riley's Press Statement put on listserv (25 higher ed & el/sec. assoc.); Ed's broadcast system offered five cuts from Princeton speech, two cuts from Riley press conference; more than 200 radio stations nationwide broadcast the radio spots.	
6/11/96		Riley Interview/CNBC(business)			
6/14/96				WH 16 pager to govt. relations reps. of the major education associations	
6/14/96		Riley Interview/CNBC(Equal Time)			
6/17	Community College Trustees Meeting, Greensboro N.C./Riley videotape	Draft Op-Ed for Mayor/Governors sent to Marcia Hale			
6/17/96	American Bar Association/Riley speech (covered by C-Span)				

JUN 14 '96 01:29PM OFFICE OF SECRETARY

DATE	EVENT/ SPEAKER	MEDIA/PRESS/OP-EDS	CONSTITUENCY SUPPORT/OUTREACH	PAPER DISTRIBUTION/ OTHER	POTENTIAL FORUMS/UPCOMING EVENTS
6/10/96			Released/Community College Presidents Letter Working on support from student associations, ACE (higher ed groups) NEA, AFT (Susan Frost) Working on CEOs (Mike Cohen)	100 media markets received Community College Presidents letter; more than 400 daily and weekly newspapers in hometowns of endorsers recvd	
6/17/96	President's Annapolis Group Meeting (90 liberal arts college pres). /Riley remarks	Riley Op-Ed to be placed Radio Interviews to be set up for Riley, Kunin, Smith, Longanecker June/July Community College Presidents to submit op-eds.			
6/24/96	College Democrats of America National Conference/Deputy Secretary Kunin				
6/22/96	DGA (Education Forum)/Riley				
6/22-23	National PTA/First Lady; Riley				
6/30-7/3					Education Commission of the States Annual Convention Denver, CO (audience 3,000-3500)
6/30-7/5	NEA Annual Convention/POTUS				

D.A.E	EVENT/ SPEAKER	MEDIA/PRESS/OP-EDS	CONSTITUENCY SUPPORT/OUTREACH	PAPER DISTRIBUTION/ OTHER	POTENTIAL FORUMS/UPCOMING EVENTS
7/3-11					NAACP, Charlotte, North Carolina
7/13-17	National Association of Student Financial Aid Administrators/?				
7/21-23	National Association of College and University Business Officers (1500-2000) (Minneapolis, MN)/Asst. Sec. Longanecker				
7/21-25	United States Student Association (400 student leaders)/Asst. Sec. Longanecker.				
8/14					American Federation of Teachers, Cincinnati, Ohio (audience 4,000)
8/8-9-6	Georgia Association of Colleges (Georgia's 60 college presidents)/Asst. Sec. Longanecker				
8/11-14					National Urban League 1996 National Convention, New Orleans



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Jason

FAX TRANSMITTAL SHEET

DATE: 6/13/96

NUMBER OF SHEETS TO FOLLOW: 11

TO: Routine Abernathy

ADDRESSEE'S FAX #: 456-2223

ADDRESSEE'S CONFIRMATION #: _____

FROM: Michael Barr

SENDER'S FAX #: 202-622-0073

SENDER'S CONFIRMATION #: 202-622-~~0000~~ 0016

SPECIAL INSTRUCTIONS/COMMENTS:

R. send to
P. M.

TRN

115-29

115-11

-2878

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
June 11, 1996

CONTACT: Ari Fleischer or Scott Brenner
(202) 225-8933

Archer Statement on the President's Prepaid Tuition Plan

The Administration's announcement today is vintage Bill Clinton -- as usual the President would pretend that bad news is good news. Instead of using the opportunity to provide urgently needed clarification for parents in the 12 states which have prepaid tuition plans, President Clinton has left in place the very real threat that his Internal Revenue Service may tax away the college savings of thousands of families. If the President really wants to help Americans to provide college educations for their families he will tell the Treasury to issue prompt favorable guidance on prepaid tuition plans instead of trying to duck the question until after the November elections.

96 TNT 115-11

6/11/96
11:23

Pennsylvania Auditor General Hafer Reveals Tuition Account Program 'Crisis'; Treasurer Failed To Disclose IRS Decision, Hafer Says

HARRISBURG, Pa., June 11 /PRNewswire/ -- The IRS has decided to slap the state's Tuition Account Program with a 34 percent tax that threatens the program's survival, but Treasurer Catherine Baker Knoll has withheld that news from parents who have invested in the program, Auditor General Barbara Hafer disclosed today.

Hafer released a May 20 letter from Knoll to Sen. Arlen Specter in which Knoll declares that the TAP program faces "an immediate crisis" because of the tax ruling.

Said Hafer, "If there's a crisis -- and I agree that there is -- the parents who have invested \$50 million in this program have a right to know it. That is why I am releasing this letter."

Hafer called for legislation to require full disclosure by the TAP program, and called for Knoll to stop promoting the TAP program. "It's unconscionable that the Treasurer is continuing to publicly encourage parents to join the program, while privately telling legislators the program is in crisis," Hafer said.

According to Knoll's letter to Specter, "the IRS has advised the Pennsylvania Treasury ... it intends to issue the ruling" and TAP's return on investment "will be taxed at the corporate rate of 34 percent." That will force TAP to either raise its prices "to a level beyond the reach of most families," or "assume an unacceptable level of investment risk," Knoll told Specter.

In fact, TAP's own actuary believes the IRS ruling would put the TAP fund in an "actuarial deficit position," according to another document released by Hafer.

But weeks after writing the letter to Specter, Knoll still has not made any public announcement of the IRS decision or its potential impact, while continuing to encourage new participants, Hafer noted.

Knoll's previous public comments on the issue contrast sharply with her letter to Specter and with the actuary's comments. In an interview in January of this year (before the IRS revealed its decision), Knoll assured the Associated Press that "the IRS may go against us, but we have the extra dollars in the Tuition Account Program to cover it."

"Now we know," said Hafer. "That's not true. The dollars aren't there. And we have a crisis."

Hafer said Knoll's handling of the IRS ruling "is just the latest in a long-running pattern of the failing to adequately disclose vital information to the thousands of parents who have trusted her to safeguard their children's college-education funds.

"An audit we have been conducting of the TAP program shows that families who have enrolled in TAP have been kept too much in the dark not only about its tax implications but also about its investment results and true costs," Hafer said. She released the TAP audit to document her charges. She noted it covers the period from the inception of the program to June 30, 1994, and said she is immediately launching a new audit to update the findings.

TAP, administered by the state Treasury, is designed to help families save for

college. A tuition-prepayment program, it is advertised as enabling participants to "lock in a price today to pay for tomorrow's tuition." Its solvency is dependent upon generating a sufficient investment return on the money it receives from parents. The Treasury recently reported that TAP has enrolled more than 15,500 children and has assets of more than \$50 million.

The program began taking in money in 1993. It will make its first tuition payments in 1997.

The audit faults the TAP program for:

-- Failing to adequately disclose that even without the latest IRS ruling, TAP accounts could have been subject to a capital gains tax of up to 28 percent when the money is withdrawn. "I believe most families would be shocked to discover that they were going to owe capital gains," said Hafer, "because it isn't adequately disclosed in the TAP brochure -- even though Treasury's computers already are programmed to generate the IRS 1099 forms."

-- Failing to adequately disclose that when parents buy tuition credits they are charged a "premium" over current tuition costs. During the audit period, the premium ranged from 2 to 52 percent, depending upon the school chosen. "If TAP must charge a premium, it should make that clear to parents and tell them exactly what the markup is for each school," Hafer said.

-- Failing to routinely provide participants with such basic investment information as the makeup of its investment portfolio and annual return.

"The lack of disclosure that has marked this program from its inception right through today is indefensible," Hafer said. "I am calling for legislation to force the Treasurer to provide the full disclosure that she has so long resisted. I believe that TAP, as a publicly operated program, should be a model of openness and accountability."

"And I am calling for Catherine Baker Knoll to immediately suspend all TAP promotional activities. The Commonwealth of Pennsylvania should not be encouraging parents to put their college savings in a program facing actuarial insolvency."

The audit also disclosed numerous instances of mismanagement by Treasury during TAP's start-up period, including the waste of more than \$100,000.

"The tragedy is," said Hafer, "that it might have been possible to prevent this crisis if the Treasurer had publicly disclosed the potential seriousness of the problem early on.

"Instead, the program is on the brink of actuarial insolvency and the Treasurer has yet to even acknowledge to the public that a crisis exists."

/EDITORS' ADVISORY: Hafer's news conference will be available via satellite from 3:00 p.m. to 3:15 p.m. Coordinates are: Galaxy 4, Transponder 5 Horizontal, Channel 5, Audio 6.2/6.8. Audio actualities will be available beginning at 1:00 p.m. by calling 800-647-4883.

Audit copies and related information can be obtained by calling the Communications Office/

/CONTACT: Bob Gentzel or Steve Schell of the Pennsylvania Auditor General's Office, 717-787-1381, or 717-787-4486, or e-mail, agnew@prolog.net /
11:00 EDT

**Remarks By
Auditor General Barbara Hafer
Regarding The
Tuition Account Program
June 11, 1996**

Good morning. As you know, my office has been conducting an audit of the Treasury, as part of our statutory duties. We have been auditing Treasury's basic operations and, through performance audits, looking at some of its more important programs to see whether they are living up to expectations -- to see how they are performing.

One of the programs we have examined is the Tuition Account Program, or TAP. This is a program that allows parents --and others --to buy college tuition credits today, with a guarantee that children can use those credits when they go to college in the future -- no matter how much tuition costs go up between now and then.

It is a wonderful idea. But to succeed, TAP's earnings on investments have to go up faster than tuition rates. One of the issues that has hung over TAP from its inception, and throughout the time we were auditing it, was: How would the IRS take its bite out of these investments? And how big a bite they would take?

Some of you have reported on that issue; for years now, the stories have explained that the Treasury was awaiting a decision from the IRS.

That has changed. The IRS has notified the Treasury. But neither you nor the parents who have invested in TAP have been told.

The IRS has notified Treasury that it intends to tax the Tuition Account Program's income on investment at a rate of 34 percent -- the corporate rate.

Treasury received notice of this decision several weeks ago. It is a decision that the Treasurer herself says threatens the survival of the program. But the Treasury has withheld that news from you -- and from the thousands of parents who have invested in TAP.

Today, I am releasing a letter, dated May 20, from Treasurer Catherine Baker Knoll to Sen. Arlen Specter. In it, the Treasurer declares that the TAP program faces, quote, "an immediate crisis" because of the tax decision.

If there's a crisis -- and I agree that there is -- the parents who have invested fifty million dollars in this program have a right to know it. That is why I am releasing this letter.

W/NEW
C/ACTLY

Full Disclosure of what?
I also am calling for legislation to require full disclosure by the TAP program. And I am calling for the Treasurer to immediately stop promoting the TAP program. It's unconscionable that the Treasurer is continuing to publicly encourage parents to join the program, while privately telling legislators the program is in crisis.

Let me quote from Treasurer Knoll's letter to Sen. Specter: "The IRS has advised the Pennsylvania Treasury ... it intends to issue the ruling" and TAP "will be taxed at the corporate rate of 34 percent."

What will that mean for TAP? Here's what Catherine Baker Knoll says: It will force TAP to either raise its prices "to a level beyond the reach of most families," or "assume an unacceptable level of investment risk."

TAP's actuary puts it more bluntly. Ernst & Young says the IRS ruling would put the TAP fund in an "actuarial deficit position." You have that document.

More than three weeks have gone by since Treasurer Knoll wrote her letter to Senator Specter. But the Treasurer still has not made any public announcement of the IRS decision or its potential impact. And they are continuing to recruit new participants.

It is striking to me how different Catherine Baker Knoll's comments to Senator Specter are from her public comments. In an interview in January of this year, (before the IRS revealed its decision) she assured the Associated Press that, quote, "the IRS may go against us, but we have the extra dollars in the Tuition Account Program to cover it." Unquote.

Now we know. That's not true. The dollars aren't there. And we have a crisis.

Unfortunately, the Treasury's handling of the IRS ruling is just the latest in a long-running pattern of failing to disclose vital information to the thousands of parents who have trusted her to safeguard their children's college-education funds.

The audit we have been conducting of the TAP program shows that families who have enrolled in TAP have been kept too much in the dark -- not only about its tax implications but also about its investment results and true costs.

The audit has now been completed and we are providing you with a copy. Please note that this audit covers the period from the inception of the program to June 30, 1994. We are launching a new audit to obtain current information on the financial status of the fund. That is more important than ever, in light of the adverse IRS ruling.

This audit faults the TAP program for:

-- Failing to clearly and fully disclose that even without this latest IRS ruling, TAP account holders could have been subject to a capital gains tax of up to 28 percent when the money is withdrawn. I think most families would be shocked to discover that they were going

to owe capital gains. Because it's glossed over in the TAP brochure -- even though we have learned that Treasury's computers already are programmed to produce the IRS 1099 forms. Compare the tax disclosure in Pennsylvania's brochure with Ohio's.

-- The audit also is critical of Treasury for failing to adequately disclose that when parents buy TAP tuition credits, they are charged a "premium" over current tuition costs and that those premiums can vary widely from school to school. During the audit period, the premium ranged from 2 to 52 percent, depending upon the school chosen. If TAP must charge a premium, it should make that clear to parents, and tell them exactly what the markup is for each school.

-- In addition, TAP does not routinely provide participants with such basic investment information as the makeup of its investment portfolio and annual return -- information you would get routinely from any mutual fund. Treasury's response? As long as the law doesn't force them to disclose, they won't.

There is a pattern here: A pattern of non-disclosure. The lack of disclosure that has marked this program from its inception right through today is indefensible. That is why I am calling for legislation to force the Treasurer to provide the full disclosure that she has so long resisted. I believe that TAP, as a publicly operated program, should be a model of openness and accountability.

And I am calling for Catherine Baker Knoll to suspend all TAP promotional activities and suspend work on their million-dollar marketing plan. The Commonwealth of Pennsylvania should not be encouraging parents to put their college savings in a program facing actuarial insolvency.

As you read our audit, you will see that it also discloses numerous instances of mismanagement by Treasury during TAP's start-up period, including the waste of more than \$100,000.

The tragedy is that this crisis might have been preventable if the Treasurer had publicly disclosed the potential seriousness of the problem early on.

Instead, the program is on the brink of actuarial insolvency and the Treasurer has yet to even acknowledge to the public that the crisis exists.

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FROM : PATRIOT NEWS - EDITORIAL TO :

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Commonwealth of Pennsylvania
Office of the Treasurer
Harrisburg
17120

CATHERINE BAKER KNOLL
TREASURER

May 20, 1996

The Honorable Arlen Specter
United States Senate
530 Hart Senate Building
Washington, DC 20510-3802

Dear Senator Specter:

I am writing to call your attention to an immediate crisis threatening the ability of Pennsylvania families to save for college through the Pennsylvania Tuition Account Program.

Recently, the IRS has advised the Pennsylvania Treasury and other states that it intends to issue tax rulings. These rulings could force the Pennsylvania Tuition Account Program, and other prepaid and college savings programs, to pay tax on the investment return earned by the fund.

The IRS has indicated that the Pennsylvania Tuition Account Program Fund will be taxed at the corporate rate of 34%. Should this happen, Pennsylvania will either need to increase the prices of the Tuition Credits to a level beyond the reach of most families, or to assume an unacceptable level of investment risk in the TAP Fund.

I am proud to administer the Pennsylvania Tuition Account Program in which more than 15,600 Pennsylvania children have been enrolled. Their families have purchased \$50 million in prepaid tuition credits. Fourteen states currently operate prepaid tuition or college savings programs and many others have approved or drafted legislation to create programs. Nearly 500,000 families will be affected by an IRS ruling of this nature.

Representatives of states with college savings programs will be meeting in Washington on Tuesday, May 21, and Wednesday, May 22, in an effort to save TAP and similar programs from an unfavorable IRS decision. This delegation of College Savings Plan Network representatives will meet with congressional leaders and Treasury Department officials during these two days. I strongly urge you to assign a representative from your staff to meet with the CSPN delegation. I ask you to join me in taking action to prevent the IRS from trying to destroy prepaid and college savings programs in this country.

The costs of continuing education are soaring and becoming increasingly out of reach for mainstream America. The Pennsylvania Tuition Account Program was created to help families afford to send their children to college.

I greatly appreciate all the support you have given our program in the past. Pennsylvania families now need your continued support more than ever.

Respectfully yours,

Catherine Baker Knoll
CATHERINE BAKER KNOLL
Treasurer

Treasury, IRS To Study State-Sponsored Tuition Plans

WASHINGTON (Dow Jones)--The Treasury and the Internal Revenue Service announced they are studying state-sponsored prepaid tuition plans and will work with Congress to develop legislation clarifying tax treatment of the plans.

In addition, the IRS does not plan to issue private rulings on state-sponsored prepaid tuition plans, which encourage parents to save for their children's education, while the agency studies them.

At least 12 states offer such plans, and other states are considering them. Although terms vary, the typical plan allows residents to purchase a contract to save for college. The contract can be redeemed for tuition or credits, or the payment on the contract can be linked to the change in the price of college.

If a beneficiary of the contract does not attend a covered post-secondary institution, many of the plans return to the purchaser the initial purchase price of the contract.

(END) DOW JONES NEWS 06-11-96

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:SUBJECT: TAX GS USA

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Received by NewsEDGE/LAN: 6/11/96 11:31 AM

DEPARTMENT OF THE TREASURY

TREASURY



NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
June 11, 1996Contact: Rebecca Lowenthal
(202) 622-2960

TREASURY TO WORK WITH CONGRESS ON PREPAID TUITION PLANS

The U.S. Treasury Department and the Internal Revenue Service are studying state-sponsored prepaid tuition plans and intend to work with Congress to develop legislation clarifying the tax treatment of these plans to encourage parents to save for their children's education.

The President's budget for fiscal year 1997 already includes a provision allowing IRAs to invest in state-sponsored prepaid tuition plans.

At least 12 states currently sponsor plans designed to help residents save for the cost of higher education. Other states have passed or are considering legislation creating similar plans. Although the terms of the plans vary, the typical plan allows residents to purchase a contract to save for college. The contract can be redeemed for tuition or credits, or the payment on the contract can be linked to the change in the price of college. If the beneficiary of the contract does not attend a covered post-secondary institution, many of the plans return to the purchaser the initial purchase price of the contract.

Treasury also announced that final Treasury regulations issued June 11 that address the treatment of certain financial instruments will not apply to contracts issued pursuant to a state-sponsored prepaid tuition plan. In addition, pursuant to Revenue Procedure 96-34, also issued today, the IRS will not issue private rulings on state-sponsored prepaid tuition plans while they are being studied.

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IRS MEDIA RELATIONS

002

PART III**Administrative, Procedural, and Miscellaneous**

26 CFR 601.201: Rulings and determination letters
(Also Part I, §§ 61, 115, 163, 1275, 2501, 7701; 1.61-7, 1.163-7,
1.1275-4, 25.2501-1, 301.7701-2)

Rev. Proc. 96-34

SECTION 1. PURPOSE

This revenue procedure amplifies Rev. Proc. 96-3, 1996-1 I.R.B. 82, which sets forth areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Domestic) in which the Internal Revenue Service will not issue advance rulings or determination letters.

SECTION 2. BACKGROUND

Rev. Proc 96-3, section 5, lists specific areas in which rulings or determination letters will not be issued because the areas are under extensive study. This revenue procedure adds a subparagraph for state-created prepaid tuition plans.

SECTION 3. PROCEDURE

Rev. Proc. 96-3 is amplified by adding to section 5 the following: Section 115.--Income of states, municipalities, etc.
--The results of transactions pursuant to a plan or arrangement

TOTAL P.13
08/11/96 TUE 08:00 FAX 2020244000

IRS MEDIA RELATIONS

created by state statute a primary objective of which is to enable participants to pay for the costs of a post-secondary education for themselves or a designated beneficiary, including:

(i) whether the plan or arrangement, itself, is an entity separate from a state and, if so, how the plan or arrangement is treated for federal tax purposes; and (ii) whether any contract under the plan or arrangement is a debt instrument and, if so, how interest or original issue discount attributable to the contract is treated for federal tax purposes. (Also §§ 61, 163, 1275, 2501 and 7701)

SECTION 4. EFFECTIVE DATE

This revenue procedure applies to all ruling requests, including any pending in the National Office on June 11, 1996.

SECTION 5. EFFECT ON OTHER REVENUE PROCEDURES

Rev. Proc. 96-3 is amplified.

DRAFTING INFORMATION

The principal author of this revenue procedure is Craig Wojay of the Office of Assistant Chief Counsel (Financial Institutions and Products). For further information regarding this revenue procedure, contact Mr. Wojay at (202) 622-3920 (not a toll-free number).

To: [unclear] dated June 24, 1996

1800 M Street, N.W.
Washington, D.C. 20036-5869
202-467-7000
Fax: 202-467-7176

Morgan, Lewis
& Bockius LLP
C O U N S E L O R S A T L A W

Sheldon S. Cohen
202-467-7300

June 7, 1996

The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C. 20500

Dear Mr. President:

I was sorely disappointed to see your suggestion for an educational tax credit for college. This act is purely a political preemptive strike and has nothing at all to do with the making of good tax policy nor budget policy.

Most politicians, including you, are talking about making our Tax Code simpler. Your suggestion would make it more complicated. In order to put in the restriction on the deduction or credit, as you described, you will need several pages of statute, a number of pages of regulation and elaborate forms. In addition, I am sure your advisors told you that the most efficient way to help with college education is either by student loans or scholarships. Putting the onus on the IRS to administer what is an educational program and not a tax idea is wasteful. Picture if you will, a highly trained revenue agent awaiting student report cards to determine entitlement to the tax credit. The same agent could be spending his time closing up corporate tax loopholes.

Right now in times of prosperity, we do not need to reduce taxes. If you are ever going to move to balancing the budget, it is in times of prosperity.

I would send this letter to the newspaper, but I do not want to embarrass you publicly. I have written Bob Dole in the same vein for proposing a charitable tax credit and pandering to the public with the Tax Code as bait.

You are out in front; while I know your political advisors tell you to do this sort of thing, I would hope you can be above this type of action.

Keep doing the healthy good government things that you are so good at. Please stop pandering to the worst in us.

Sincerely,



Sheldon S. Cohen

cc: The Honorable Robert E. Rubin
The Honorable Laura D'Andrea Tyson
The Honorable Margaret M. Richardson
The Honorable Leslie B. Samuels
The Honorable Donald Lubick
✓ The Honorable Gene Sperling

6-10-96

THE WHITE HOUSE
WASHINGTON

June 8, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: HELEN HOWELL *Howell*

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

(A) **Panetta memo on Defense Bill mark-up.** The House Appropriations Committee marked-up the bill on June 5. It totals \$245.7 billion (\$11.2 billion over the Budget, and \$2.9 billion over FY 1996). In combination with defense funding in other bills, total defense funding would exceed your request by \$12 billion. Most of the increases above the request are for advancing the pace of modernization activities in procurement accounts, R & D, and strategic sealift programs. The bill also would terminate the proposed Dual Use Application Program. Prior to the mark-up, Rivlin objected to the increase in funding over your request, noted other concerns about the bill, and indicated that your senior advisers would recommend that you veto a Defense Bill that did not address these concerns.

(B) **Panetta memo on Agriculture Appropriations Bill mark-up.** The House Appropriations Committee marked-up the bill on June 6. It totals \$12.8 billion (\$1.1 billion below the request and FY 1996). Cuts in discretionary programs were moderated by mandatory savings provisions of \$.5 billion, and actual discretionary spending is about \$13.4 billion. Prior to the mark-up, Rivlin noted that the Administration had serious concerns that had to be addressed, including reductions in several mandatory conservation programs, the WIC and food stamp programs, rural housing, and rural water and wastewater loans and grants. The Committee provided increases to some of the mandatory conservation programs that had been cut by the Subcommittee, and overturned a cut of \$98 million in Farm Bill market transition payments that had been included by the Subcommittee.

(C) **Sperling, Reed and McHugh memo on media coverage of your announcement of America's HOPE scholarships at the Princeton commencement.** The coverage was overwhelmingly positive and included: network news coverage on all 4 major networks; 2 consecutive days of NY Times articles; 3 Washington Post articles; 2 NI Star-Ledger articles; front-page stories in these papers as well as the St. Louis Dispatch, Chicago Tribune, Minneapolis Star-Tribune, and Baltimore Sun; and 2 consecutive days of USA Today articles. In addition, pictures of you at the commencement were featured in numerous papers.

Need to read follow-up

THE PRESIDENT HAS SEEN
6/10/96

THE WHITE HOUSE
WASHINGTON

96 JUN 6 10 57

June 6, 1996

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: GENE SPERLING
BRUCE REED
LORRIE MCHUGH

SUBJECT: Media Coverage of the America's HOPE Scholarships Announcement

Your announcement of America's HOPE Scholarships at the Princeton University commencement received enormous press coverage throughout the nation in the two days following the event -- with the overwhelming majority of the coverage being extremely positive. *Attached is a summary of the news coverage, a sampling of nationwide clips, and a page of the best quotes.*

HIGHLIGHTS:

- **Network News Coverage on all 4 Major Networks** -- Including a lead story on *ABC World News Tonight* followed by a profile of the Georgia HOPE Scholarships program.
- **2 Consecutive days of USA Today Articles** -- Including the charts we provided on the cost of average community college tuition in each state and the increases in costs of college tuition as a percentage of family income.
- **2 Consecutive days of New York Times Articles** Including a Front-Page Article and a Mostly Supportive Editorial.
- **3 Washington Post Articles** Including a Front-Page Article and an Editorial.
- **2 New Jersey Star-Ledger Articles** Including a Front-Page Article.
- **Front-Page Articles:**
 - *Washington Post,*
 - *New Jersey Star-Ledger,*
 - *St. Louis Dispatch,*
 - *Chicago Tribune,*
 - *New York Times,*
 - *Minneapolis Star-Tribune,*
 - *Baltimore Sun,*
- **Pictures of the President at the Princeton commencement:**
 - *Los Angeles Times,*
 - *Atlanta Journal Constitution,*
 - *St. Louis Dispatch,*
 - *Richmond Times-Dispatch,*
 - *Miami Herald,*
 - *Louisiana Times-Picayune,*
 - *Washington Times,*
 - *New Jersey Star-Ledger*
 - *Hartford Courant,*
 - *Baltimore Sun,*
 - *Chicago Tribune,*
 - *Asbury Park Press.*

FR: LES SAMUELS

~~FR~~

TO BE RELEASED TUESDAY

TREASURY TO WORK WITH CONGRESS TO FACILITATE STATE-SPONSORED PREPAID TUITION PROGRAMS

The IRS and Treasury are studying state-sponsored prepaid tuition plans. Accordingly, final Treasury regulations issued today that address the treatment of certain financial instruments do not apply to contracts issued pursuant to a state-sponsored prepaid tuition plan. In addition, pursuant to a published revenue procedure, the IRS will not issue private rulings on state-sponsored prepaid tuition plans while they are being studied.

The President's budget for fiscal year 1997 included a provision allowing IRA's to invest in state-sponsored prepaid tuition plans designed to help clarify the treatment of these plans. Treasury intends to work with Congress to develop legislation further clarifying the tax treatment of state-sponsored prepaid tuition plans to encourage parents to save for their children's education.

Background

At least 12 states currently sponsor plans designed to help residents save for the cost of higher education. Other states have passed or are considering legislation creating similar plans. Although the terms of the plans vary, the typical plan allows residents to purchase a contract to save for college. The contract can be redeemed for tuition or credits, or the payment on the contract can be linked to the change in the price of college. If the beneficiary of the contract does not attend a covered post-secondary institution, many of the plans return to the purchaser the initial purchase price of the contract.

ONFORRESTPREPAIDIPRS

THE WHITE HOUSE

Office of the Press Secretary
(Princeton, New Jersey)

For Immediate Release

June 4, 1996

PRESS BRIEFING

BY

MIKE MCCURRY, GENE SPERLING
BRUCE REED, AND GOVERNOR ZELL MILLER

Princeton University
Princeton, New Jersey

10:10 A.M. EDT

MR. MCCURRY: Good morning, everybody. It's a pleasure to welcome you to the Chancellor Green Association where many, many, many nights I poured a beer right at that bar, back in the drinking days. What I'd like to do is have Gene Sperling and Bruce Reed, who you know well, tell you a little bit about the President's scholarship program. And then we're delighted to have with us Governor Zell Miller. The President invited Governor Miller to come with us today, given the importance that the Georgia HOPE Scholarship program played as an inspiration to the President's policymakers as we crafted the proposal that the President will announce today. He can tell you a little bit about the Georgia experience. Gene and Bruce can tell you more specifically about the proposal the President will make in his remarks this morning.

Gene, you want to start? We have the dynamic duo, and then the Governor.

MR. SPERLING: This was an idea that we started working on in October-November of '95. As we went into the balanced budget negotiations, we put it off for a while, obviously, to focus on the negotiations. But it's something that the President has wanted to do for a while.

The goal is that as we have now come to have a universal standard that every American should seek K through 12, 12 years of education, we wanted to stress the notion that 14 years of education, two years of college, should be considered the universal norm -- the minimum that people need in order to do well in the new economy. And so what we did was add to the President's \$10,000 education deduction a \$1,500 refundable tax credit for families up to \$100,000.

The \$1,500 refundable tax credit is available to any student in their first year, and then, in order to get it in your

MORE

second year, the student has to have received a B average in their first year. If they're a part-time student or half-time student, then whatever point the hit one year they would need to show that they have maintained a B average. That would be technically probably a B-minus average; it was scored at 2.75.

So that is the core proposal. It does -- the way that it -- I think that we tried to put the cost of it fairly clear there. The credit ends up being \$25.1 billion, but just to give you a very quick walk-through, just because I know it gets confusing -- our \$10,000 deduction, the number you've seen before, was \$41.2 billion. That was the seven-year number, from Fiscal Year '96 to 2002.

Obviously, Fiscal Year '96 is practically gone, so now all of the budget issues are being -- by both us and the Republicans -- are being scored from Fiscal Year '97 to 2002.

So our costs over six years would have been \$35 billion for the \$10,000 education deduction. By adding the -- by limiting the income cap from \$120,000 to \$100,000, that saved \$6.5 billion. And then there is another \$10.7 billion that is saved just because the credit is more attractive, so families with kids in their first two years will choose -- most families will choose the credit over the deduction. That still left the total costing \$43 billion over six, or \$42.9 billion over six, or \$7.9 billion more than was in our balanced budget.

And so the savings you see on the foreign source sale income, the radio auction and the international departure fee are the three paid-fors that come to \$7.9 billion. This was absolutely critical to us that anything that we put forward have specific paid-fors so that we stay within the balanced budget context for the year -- by the year 2002.

MR. REED: Before we take any questions, why don't we give Governor Miller a chance to speak, because he needs to go out to the ceremony.

GOVERNOR MILLER: I'll only take a minute, but I'm very pleased to be here as the President announces this very bold and this very far-reaching program. And I'm here to tell you that such a program will work because I have seen it work in a remarkable way in the state of Georgia where we have a HOPE Scholarship plan of our own. I think it's only fair since I borrowed the President's name of his birthplace for my program that now he is being able to take it back.

You know, we live in a time where it is more important for our students to get a college education than ever before. But we also live in a time where it's never been harder for families to pay for that education. Georgia parents, like parents all over this country, wanted their children to be able

to go to college, but they could not afford it until we had a HOPE Scholarship.

Now, in Georgia, to give you an idea, Georgia is the 10th largest state in the United States, but our university system is the fourth largest university system in the United States. We have record enrollments in our public colleges and record enrollments in our private colleges. We are being able because of this kind of scholarship to provide a skill and an educated work force. And that's what needed in these days and what will be needed for the 21st century.

I think it's a great program, and I applaud the President. And I applaud Gene and Bruce and all of those who worked on it because it is something, ladies and gentlemen, that will work. It's something that can make a difference in the lives of our citizen all over this country. I've seen it work in Georgia. I've seen more than -- soon we will have 200,000 students who have received the HOPE Scholarship. Many of those could not have gone to college without it.

Q Governor, could you tell us how long the program has been in effect there?

GOVERNOR MILLER: In Georgia it has been in effect since 1993. We have had three full school years.

Q How much, Governor, did it increase college attendance?

GOVERNOR MILLER: It almost doubled it in some places. In some places it tripled it. In south Georgia, only about nine percent of our high school graduates were going on to college. Now, in south Georgia, an area that's as big as a lot of states, nearly 25 percent are going on to the next two years or more of higher education.

Q How did you pay for it?

GOVERNOR MILLER: How did we pay for it? In Georgia we paid for it with a lottery. We put in a lottery and used the lottery proceeds to fund three programs: a pre-kindergarten program for four-year olds, this HOPE Scholarship program that The LA Times has called the most far-reaching in the nation, and then the third thing that we used lottery money for is technology in the classroom.

Q So you didn't have to -- (inaudible.)

GOVERNOR MILLER: No, we did not.

Another thing that it has done, it's enabled us to keep in Georgia our students. Instead of them going off to college somewhere else, they're staying in Georgia.

Q How much is the scholarship?

GOVERNOR MILLER: In Georgia it is the cost of tuition, plus a book allowance, plus the fees.

Q At a Georgia school?

GOVERNOR MILLER: At a Georgia public school, at a Georgia public college. If they decide to go to a private college, then we give them \$3,000 on their --

Q Governor, was this also an election-year proposal in Georgia?

GOVERNOR MILLER: What?

Q Was it an election-year proposal in Georgia?

GOVERNOR MILLER: Yes, it was.

Q -- at national level will you be glad to have the federal government take this over for you?

GOVERNOR MILLER: I am delighted that President Clinton wants to make this national in scope. I couldn't be more pleased.

Q What happens to your program, does it fade out or what?

GOVERNOR MILLER: No, it won't fade out, it will just enabled some Georgia students who cannot now take the benefit of our HOPE Scholarship program because they don't have a B average when they finish high school to be able to go the first year of college and show that they can get a B average the freshman year in college.

Q Could Georgia students get both benefits?

GOVERNOR MILLER: Possibly, yes.

Q You said in some areas nine percent attendance went up to 25 percent.

GOVERNOR MILLER: Went up to about 23.5 percent.

Q I thought you had said --

GOVERNOR MILLER: Well, in north Georgia, which includes the Atlanta area and our more populated area, there was a tremendous increase, I think about a 40 percent increase.

Q What I mean is, what about the 76 percent who still are not going on? I mean, is your goal, is it President Clinton's goal to get everybody to do two more years?

GOVERNOR MILLER: I think that would be the goal because I think all the studies show that the jobs that are going to be created in the future are going to require two years beyond high school in some kind of higher education. I applaud it. It's a very bold and far-reaching move.

Q Why did the materials that you handed out not have the income cap on it? It doesn't have anything about \$100,000 ceiling.

MR. SPERLING: My mistake. I mean, we just were --

Q -- you didn't just decide that for this morning?

MR. SPERLING: Yes. We were explicitly mentioning the \$100,000 lowering on the deduction because we were trying to explain -- make very clear to explain the savings. But this harmonizes the IRA and the deduction and the credit; they all phase out at \$100,000 -- \$50,000 to \$70,000 for an individual filer.

I just wanted to make a couple of things clear. The \$1,500 is applied towards any school you go your first two years, so it -- somebody at Princeton could apply; somebody at a community college. What we wanted to do is the national average for community colleges is \$1,200; at \$1,500, that's \$300 over, you're essentially saying to every state -- what we'd like to do is challenge every state to do what George has done, which is to use this to help them do something as bold as what George has done. But it at least says to every state, if you provide your tuition within \$300 of the national average, you could say to every person in your state that they can go to their first year of community college for free, tuition-wise free, and free for the second year if they maintain a B average in the first year.

So it can be applied towards public -- first-year, four-year public school, but we wanted to set a minimum that you're guaranteed at an average community college of having that tuition. And part of the reason it's important for families, as one of the charts we have in there show that the cost of college for a family has gone from nine percent in 1979 to 14 percent, '94. So it's becoming an increasing burden on families.

Our goal is the hope that states would supplement it and would use this extra help. In terms of the question to Governor Miller, the limit is on what you get from the federal government. We'd like states to supplement it and make their programs more ambitious.

Q Do all of these three payment methods -- the Spectrum sales, the sale source benefits and the -- those all require legislation, right?

MR. SPERLING: Oh, yes. These are new proposals that are not in our current balanced budget proposal. So we're not double dipping or double counting.

Q What is the auction -- who pays that money?

MR. SPERLING: I'm going to have to a little later get back -- I have OMB right now getting us more details on that. I apologize, I am not a particular expert on the details of auction, Spectrum auctions.

Q Is there a tax on cell phones or anything like that?

MR. SPERLING: We've got a lot here. Why don't I get some paper from OMB for you.

Q On the new tax for departure -- on the new departure tax, why should travelers have to pay new tax to support community college education?

MR. SPERLING: If you're serious about a balanced budget, if you're serious about keeping kind of fiscal integrity, you have to make priority choices. You have to -- there is no gain without a little pain somewhere.

Now, this is a kind of classic user fee. Right now people are able to use our public airports. These are people who are traveling abroad. They tend -- as Bruce is saying, it's below the international average. It tends to be higher income. So I think when you're making these types of choices, you want to be serious. You never like to do any of these things. You do them so that you can do more important things like promote education and still be in balance.

Q That these can conventionally -- that these airport departure fees have been used to pay for airports and runway upkeep and maintenance and unrelated measures?

MR. REED: It's general revenue.

MR. SPERLING: Money is fungible. You can --

Q The question was whether in the history of the United States airline departure fees, they're generally used for a related purpose. And it's an answerable question.

MR. SPERLING: That is true, but when you are -- but, Todd, when you are talking about balancing the budget, the funds that come in -- it is not -- you appropriate money from

appropriations. So I am saying that the money is fungible. I will get you the -- I will try to get exact background on whether there has ever been, but I do want to say, money is fungible and --

Q -- restoration of the sales tax -- I mean, the departure tax that has now expired?

MR. SPERLING: It's a restoration, but -- no -- but this then increases for international from six to 16.

Q The three measures that you have listed only deal with the extra, what, \$7-point-something billion necessary to cover this. Were there other measures for the remaining \$35-plus for any --

MR. SPERLING: Yes, let me just try -- I was trying to explain it before. The \$35 billion was part of the balanced budget plan that was scored by CBO. So when we added this program -- one of the reasons why we were held up last night was it's the -- the complicated thing was Treasury figuring out what the interactions were going to be.

So the big question was, how much was this going to lower the deduction. Because for the average family making \$50,000 and sending their kid to school at \$3,000 average tuition, the \$1,500 tax credit is by three or four times more generous than the tax deduction. So as all those families choose the tax credit, they aren't using the tax deduction. So the cost of our tax deduction went down by \$10.7 billion. Then we lowered the income cap from \$120,000 to \$100,000. That was \$6.6 billion -- or \$6.5 billion. So when you add those together, you get about \$17.2 billion. Then you add -- that leaves you \$7.9 billion under budget. So we had to come up with that to stay in balance.

Q Are there other identifiable -- easily identifiable offsets for the original tax deduction?

MR. SPERLING: No. I mean, it's just part of the overall balance. It was just a part of the overall balanced budget plan that CBO scored.

Q There's a report in the Wall Street Journal today that as of last night there was still a bitter fight in the White House over this proposal and that there was --

MR. SPERLING: We are so good -- we put this whole thing together at 2:00 a.m. No, we -- this was a proposal we were doing, everybody had agreed on. There was some uncertainty because we wanted to be very committed to making sure we had enough to pay for. You know, there was some -- as we were running the numbers, we had to figure out exactly which paid-

fors that we wanted to use. But everybody was very, very committed to the idea that we would pay for anything --

MR. REED: Gene was going to be up late anyway.

(Laughter.)

Q Gene, is the tax credit limited to the amount of the tuition? Suppose you live in California, you only get \$363, is that right?

MR. SPERLING: It's limited to the amount of the tuition. But that's for community college. For the people at UCLA, at Southern Cal, all of them would get the full \$1,500. It's what -- it covers up to the amount of tuition for that year, but not more than tuition.

Q How come you define drug-free in here as freedom from felony drug convictions?

MR. REED: That's the standard that's applied for other federal financial aid. It's also the standard in the Georgia program and the Arkansas program.

Q Do you have any evidence that tuition costs are an impediment to people going to community college?

MR. SPERLING: Well, I mean, there's no question that anything that has a price that's higher is going to be -- there's going to be some price sensitivity to that. I think that you see this in several ways. One, we want to lower the burden on families for doing the right thing, sending their kids to school. As we said, it's now 14 percent of their income. Secondly, I think the cost of tuition, what it does for a lot of people is it makes it difficult to engage in a full-time study or a half-time study. So I think there is a lot of evidence to say that as the costs are high, people have to work more, and it's harder for them to focus on their study.

When we did the \$10,000 deduction, we found that there was some number of several hundred thousand more who would come. But it's always difficult because, unlike people buying a car, this is something they buy a little bit at a time. But there's certainly reason to believe -- but what there is a lot of evidence on is that a lot of times people don't even understand the current financial aid structure. And what Gary Orr feels -- he's at Harvard now, he used to be at University of Chicago -- said was that people's misperceptions about the burdens of college was as much a -- their misperceptions about how much it was going to cost them or financial aid was a big obstacle.

So one of the important things about having the President of the United States go out and say this is not only the tax credit, but when you give the message that there's guaranteed access and you communicate that message, -- itself,

based on a lot of the literature, would do a lot of good in getting people to go to college.

Q Why wouldn't this cause a lot of states to raise their tuition -- I mean, their average tuition of a community college to \$1,500 since you're going to -- that's the cap?

MR. SPERLING: There's a theory -- since one for a public school -- the public schools are usually over \$1,500. A lot of the community colleges are right around that amount. A lot of the community colleges have a large number of part-time students, so they have a whole group of consumers who would not necessarily be getting this credit who would be watching the cost.

Also, our hope is that as we publicize the state-by-state charts and people see that the average cost is \$1,200 that there might be a certain public pressure the other way on citizens ask why a community college in their state is so much above the national norm. For 33 states the students there would have the tuition free, essentially free. And I think our hope is that the citizens of the other states will ask why they're not closer to the national average as well.

Q Was there any thought given or look at the effect that this corporate tax increase or the removal of this exemption on corporations would have on exports? Because as I read the fact sheet, it looks like this tax break was given to companies to encourage exports. And now you're taking it away from them.

MR. SPERLING: Well, it was both Larry Summers and Les Samuels' strong feeling that this was much more in the area of an inappropriate loophole or a shelter. There is still -- it does not get rid of the whole benefit, it lowers it to half. And their feeling was that there was inappropriate use of the foreign tax credits to not pay U.S. income. So this was something that, as I said, both Larry Summers and Les Samuels thought was very good policy. Both of them are enormously sensitive to the issues of tax incentives for exports.

Q Could you explain that procedure, how that works --

Q In addition to the whole program together, all of these tax initiatives equal about \$107.6 billion, is that right? If you take everything that is in his balanced budget proposal plus what he's offering here?

MR. SPERLING: My memory is that because we'd added a few things in the last proposal, such as the expensing, that the gross number was \$117 billion. This would be adding about \$8

billion to that. So I'd say the overall gross total over seven years would be \$125 billion now.

The Middle Class Bill of Rights, however, the three core ones were \$107 billion under our scoring and a little less under CBO. That was under seven years -- and I'm sorry, we're all going through the same thing you are, trying to change all the numbers to six years. It's not easy.

Q Gene, at what point would it become more advantageous for a family -- at what income level, to take the deduction instead of the credit?

MR. SPERLING: The circumstances -- it's not as clear of an issue because the thing -- this is an interesting point. The \$10,000 deduction, that's the family limit for the deduction. But the credit if you have three children who are all in their first year or doing -- you can get at the same time. So a family, even an upper-income family -- let me just give you an example. If you have a child that was at \$10,000 and you were in the 28 percent bracket, you might say this doesn't matter to me. But if you had one child who was at Princeton and borrowing all \$10,000, and your next child starts their first year, you can't deduct that. You've already maxed out at that \$10,000. But if your child would get \$1,500, if they've got a B average, they'd get the \$1,500. So even for the families in the \$70,000, \$80,000 range that have two children, it could benefit.

But the general question is, if you had just one child, it would be a family that was making between -- depending on their deductions -- but \$60,000 and \$90,000 that had around \$6,000 of tuition might generally prefer the deduction. So pretty much somebody sending their kid to private school probably, near the upper cap, would prefer the deduction.

Q Could you double-check on initial participation, the only requirement is being accepted at an accredited college?

MR. SPERLING: We had a lot of discussion about this and I'll tell you why the President decided this. The President felt that if you were saying that for the country as a whole it is good for economic growth for everybody to go 13th and 14th year, that you don't -- that while you can understand in Georgia where you are offering such a generous benefit, four years tuition, why they have to have some limitations, but what he wanted to say is part -- when you go from -- when the country went from 10th grade to 12th grade they were saying to everybody, no matter what kind of a student you are, no matter who you are, you should go to 12th grade. So the President wanted to say to everybody, you should try a year of college.

But because he wanted to have the responsibility message in there, he wanted to be, while we give everybody a

chance, everybody gets a chance, he felt that the second year you would have to earn. Now, somebody who doesn't earn it still gets the tax deduction, they're still eligible for Pell Grants. But for this specific credit it was an incentive to get everybody to go that first year, but also an incentive to perform.

That really goes, I think, to the heart of the speech a lot. The President is laying out his alternative, his growth strategy. He is saying this is what his strategy for growing the economy is, this is what he would like to do in the future. And he is saying that going to 13th and 14th grade, making that a minimum, is not just good for a personal family's fortunes, it is good for the economic growth of the country, and that the combination of maintaining a deficit reduction and a balanced budget path and a serious effort to get more people having the higher skills -- because when the country as a whole has more collective skills, that means that companies that have higher value-added production are more likely to locate here because they can find the workers they need. So it's not only good for families, it's good for growth for the whole country.

Q You may have already answered this, but after the Middle Class Bill of Rights, what happened to actual legislation of the \$10,000 tax deduction?

MR. SPERLING: We sent that up, it has been included in our balanced budget that was voted on. It also was included in the -- when Daschle had their own version it was also included.

Q At the time of the Middle Class Bill of Rights were there actual legislation sent to the Hill?

MR. SPERLING: The President first proposed, as you remember, on December 15, 1994, in an Oval Office address. Shortly after that, my recollection was that Senator Daschle and Congressman Gephardt did put up legislation on it, and then they repeated that legislation in their balanced budget proposals, as well as ours that was voted on in the Senate.

That, by the way, I believe -- when they proposed it I believe it did have the \$100,000 cap. So while we're changing ours from \$120,000 to \$100,000, we're being consistent with how the congressional Democrats had proposed our --

Q Is there any evidence that one or two years of additional college raises incomes?

MR. SPERLING: I think that's a very important part of this speech. There's a chart from the Census Bureau in your packet, on page 13 and 14, which spells out exactly how much of a difference this makes. And just so you know, the Census Bureau estimated that for a high school graduate, average lifetime incomes are about \$800,000. For someone who goes on and gets

some college, it's upwards of \$1 million. For a college graduate it's even more than that.

So we think this is very important to raising incomes over the long-term.

I just wanted to say, in addition to the Census, right behind that are the citations from the academic studies that show five to 15 percent per year, even for community college in the increase in earnings for higher education.

Q -- talk about community college, this credit is eligible for any tuition? It could be private or anything?

MR. SPERLING: Yes. Absolutely, it is for everybody. It was priced, though, to ensure a minimum.

Q You talk about wanting to lower the burden on families that are doing the right thing. Why not provide this type of tax cut to families who send their kids to K through 12 who are trying to prepare to go on? And the second thing, why shouldn't the Republicans view this as just an election-year gimmick?

MR. SPERLING: Well, the President has been devoted to education his whole life. And the other thing that you can see is that he had a program very similar to this in Arkansas that is described. So I think his bona fides and credentials on dedication to this are really without question. And the fact is we would have proposed this probably in the fall of '95 had we not gotten into the balanced budget negotiations.

What was your first question?

Q -- try to help middle income families put their kids through school, why not help parents who have kids K through 12?

MR. SPERLING: It's pretty rare that you hear a tax cut proposal that doesn't sound nice. All these things would be good. It's just like why not buy --

MR. REED: That's not the question he's asking.

Q Why grades 13 and 14 and not K through 12?

MR. SPERLING: Why do we not provide a federal tax incentive for K through 12? The President feels that from the federal level, using the tax code to encourage higher education, that is where the evidence -- that is where the dramatic evidence is that there is higher earnings for the country, higher earnings for families. And when you're -- we inherited a bad situation and we have to be very targeted and very limited in the tax incentives that we give because we have to pay for everyone. And

I'll tell you, it was not easy coming up even with the extra \$8 billion when things are as tight as they are now.

So it's just a matter of prioritization. The President is making higher education a key priority in his economic growth agenda.

Q Why shouldn't we believe that all of this is simply the result of all the talk among Dole's advisors that he's going to come forward with another tax cut and that Clinton is simply trying to preempt Dole?

MR. MCCURRY: Because the White House has absolutely no idea what proposals, if any, Senator Dole will make. We remain committed to expanding college opportunities. We've been working on this for some time, as you just heard from your briefers. And the President believes this is a good idea.

The last question.

Q I just wanted to clarify the definition of refundable tax credit. That is a deduction from taxes owed, right, so that if you owe less than \$1,500, you get back the remainder?

MR. SPERLING: I mean, that's right. I mean, just generally, a deduction -- you get to deduct \$2,000 from the amount of income that is subject. So if you were going to have \$30,000 taxed at 15 percent and you had a \$2,000 deduction, you'd have \$28,000. So you'd save \$300. But when you have a \$1,500 credit, you actually take \$1,500 -- you figure your tax bill and then you just minus \$1,500. If you only owed \$1,000 in taxes and you had a \$1,500 refundable credit, just like you get a refund or -- I just got a refund from the IRS -- you would get a \$500 refund on that credit.

MR. MCCURRY: Okay, I need to let these guys go. Do you have any other subjects?

Q Even though we don't know exactly what Dole's going to propose, assuming that perhaps he proposes an across-the-board rate cut, why is this targeted approach, in your minds, superior to that? Are there other investments people could make, particularly if they had money back in their pockets?

MR. SPERLING: I think it goes back to prioritization. Anything we do has to be paid for, it has to be paid for. We already have \$175 billion in Medicare and Medicaid saving. We have serious welfare savings. We have a very serious discretionary savings. We have pushed very hard. Anything we do comes with some pain in terms of spending cuts or raising revenues. So if you're committed to balancing the budget, you've got to make those tough choices. And so, for us, this is the choice that the President made. Higher education is key to

economic growth, and that's worth the priority. And that's where he's coming down.

MR. MCCURRY: The other obvious point is that an across-the-board tax cut would cost hundreds of billions of dollars. The only way to pay for that -- because the President believes you have to pay for these proposals as you go -- would be huge cuts in Medicare and other social insurance programs that are necessary for the American people.

If Senator Dole is coming forward now in favor of across-the-board tax cut that could cost hundreds of billions of dollars, he will most likely also have to propose devastating cuts in Medicare and other programs, or diviserating our national defense, because we would assume that he would be consistent with his solid record of supporting pay-as-you-go tax cuts.

Q Can you explain these high-paying programs?

MR. MCCURRY: If we can get some additional information on that.

Is there any other subjects that we need to cover this morning?

Q Can you say a few words about the Japanese destroyer?

MR. MCCURRY: The President overnight got a written report on the incident involving the shootdown of the A-6. He was gratified to hear that the pilots were safely returned to the Intrepid and he accepts the gracious expression of regret by the Japanese government.

Q Wasn't it the Independence?

MR. MCCURRY: Oh, I'm sorry -- the Independence. The Intrepid was involved in the last encounter with the Japanese. (Laughter.)

Q The President accepts what, the gracious --

MR. MCCURRY: The gracious expression of regret extended by the Japanese government.

Any other subjects? Okay. We'll be around after the speech.

THE PRESS: Thank you.

END

10:45 A.M. EDT

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May 31, 1996

MEMORANDUM FOR

FROM:

RE: Tuition tax proposal

There is wide agreement among your economic team and White House staff that the concept of making two years of college as expected as 11th and 12th grade is an important and powerful concept. Yet there are serious concerns and some disagreement over what policy best delivers this message. This memo has four sections:

Section I. Responses to Basic Timing and Idea

Section II. Five General Options

Section III. General Concerns

Section IV. Pro and Con on Each Option

SECTION I. RESPONSES TO BASIC TIMING AND IDEA: While the majority of this memo will deal with the specific options and the pros and cons of each, it is important to note that among your economic and education team and political advisors in the White House, there is still some basic disagreements as to the overall approach.

Differences: Need to Take Risks to Offer a New Bold Idea: Some of your advisors believe that it is important to go forward with some idea of free 13th and 14th grade because it represents an idea and second term agenda that is bolder and stronger than any of your existing proposals, and therefore, would make more clear what your overall agenda is for the second term. Those who feel strongest about this need, feel strongly that you should push forward on a free 13th and 14th grade proposal, with the understanding that all ideas have problems that have to be ironed out and that such details should not hamper us going forward with the program. Others feel, there is not a basic need for such a new proposal, and that any new proposal will receive considerable scrutiny during the long campaign months, and that we should be relatively risk-adverse in offering new ideas where all of the mechanics have not been worked out. Clearly, many feel the answer to this issue lies in our ability to iron out the tough spots that will be discussed below.

Agreement: Completely Paid for and Balance in the Year 2002: One issue where there is near unanimous agreement is the notion that any extra costs must be specifically and clearly paid for in a way that makes clear we are still in balance in the year 2002.

Differences: Perception of Starting a Bidding War: While all agree that this new proposal is consistent with your targeted education tax strategy, some are concerned that even if we pay for this tax cut, the timing will lead many to claim that we have started the bidding war and that this will hurt our overall credibility. For some of your top economic advisors, this concern is very strong and would argue against doing a proposal even if most of the details could be worked out. Others feel that it is important to make such a proposal now, because if you wait, you may later be seen as reacting to a large across-the-board tax cut proposal.

Difference: Concern About the Message of "Free:" Secretary Reich and Secretary Riley agree with those who feel that the notion that "free" 13th and 14th grade tuition is central to making this a bold idea that will receive considerable attention. Secretary Kantor and others are concerned that despite the attractiveness of the notion of "free" 13th and 14th grade, the concept of "free" goes against the message of responsibility and opportunity, and of no more something for nothing. The response to this concern could be that if it is only tuition that is free, and students and families still have to take responsibility for room, board, transportation and books.

SECTION II. FIVE GENERAL OPTIONS

OPTION 1: Repackage Policies and Proposals As Guaranteed Access Accounts

This option would show that our existing policies and proposals together provide every American a guaranteed access to college and more. We could describe these benefits as "Individual Education Accounts" or "Individual Learning Accounts." They would guarantee every American \$7,000 (or some equivalent amount) for their first two years through a combination of policies:

- Increased Pell Grants
- Increased work study
- \$10,000 tuition deduction
- Loans -- with pay-as-you can repayment
- Skill Grants
- Expanded IRAs to save tax-free for education and training

OPTION 1A: Option 1 With Sweetener: e.g., Pre-Paid Tuition Savings Option

Under this option, we would give the package in Option 1 a new bite by adding a relatively inexpensive sweetener. For example, we could expand subsidized loans or the Treasury could encourage pre-paid tuition savings plans.

NOTE ON PACKAGING AS "ACCOUNTS": All of the following options could be packaged as part of an Individual Learning/Education Account which include all of the benefits we offer. These options below could be seen as Education Accounts that

- Guarantee free tuition at an average community college
- Guarantee \$6000-7000 a year in overall financing
- allow people to save for education
- pay back on income-contingent basis

NOTE ON PELL GRANTS: Any of the options below and above could include our announcing what we have already budgeted for the increase in Pell Grant awards in our 7 year balance budgets. This would make clear that our plan does help lower - income students (now, some will say that most Pell Grant recipients do not benefit from our additional credit) and will help get a sounder validator reaction from the higher education community.

OPTION 2: Tax Credit for 13th and 14th Grade Combined with \$10,000 Deduction

- \$1,500 for 13th and 14th Grade Full-Time
- \$750 for 13th and 14th Grade Part-Time
- \$10,000 Deduction (yet only at 15% bracket)

\$1500, Full-Time: Full-time students in degree programs would be guaranteed \$1,500 for tuition from either a refundable tax credit or a Pell Grant. In other words, if someone had a \$1,500 Pell Grant they would not get a tax credit, and if they received a \$1,000 Pell Grant they would get a \$500 tax credit. This ensures that every young person is guaranteed a "free tuition" at an average priced community college. It would be enough to cover the average tuition for community colleges in 34 states, which include 67% of community college students.

Up To \$750, Part-Time: Part-time students in a degree program could get a credit of up to \$750 per year for four years for up to half-time enrollment.

\$10,000 Deduction (15% Limit): About 70% of taxpayers are in the 15% brackets. Under our current proposal, a family in the 28% bracket could get a \$2800 tax cut. Under this option, the deduction would be taken in the 15% bracket, so the most a family could receive would be \$1,500 (15% of \$10,000).

OPTION 2B: Same as Option 2 But Without The \$750 Credit for Part-Time Students

OPTION 2C: Same as Option 2 But The Credit Would Be Available to Students in Non-Degree Programs. This would cost about \$1 billion more per year.

OPTION 3: Ensure Free College Tuition by Offering to Match 75% of Tuition for Community College (up to \$1000-\$1500)

This option could have the same general benefits as Option 2, but the credit would take a different form, and would vary based on each state's tuition. The residents of each state would be eligible for a tax credit worth 75% of tuition if the state agreed to pay the other 25% -- up to \$1200. For example, a state with a \$1000 tuition, would have to agree to pay \$250 for everyone in their state to be eligible for a \$750 refundable tax credit.

OPTION 4: Give a Set National Credit Directly to Eligible Students Regardless of the Costs of Tuition in Their State

Under this model, a credit equal to the national average community college tuition would be given to each student directly -- regardless of the tuition costs in their state. Therefore, each full-time student would receive a \$1200 or \$1500 tax credit -- enough for full-time tuition at an average community college. If the state were high-priced, the \$1200 or \$1500 amount would not be enough for "free" community college, but that would be the fault of the state. For states that subsidized more than the national average -- so that community college tuition was only \$900 -- the student could keep the difference and apply the rest (\$300 if the credit were \$1,200) for books, room and board.

OPTION 5: Expand Pell Grants To Guarantee All Students a Minimum of \$1200-\$1500. This option would offer an expanded Pell Grant approach in which all students would receive a minimum benefit to go to college, while poorer students could receive more. This proposal would implement this on the outlay side and not as a new tax cut proposal.

SECTION II. GENERAL CONCERNS: There are a few major concerns and questions that have to be considered as we look at each of the options below or craft new options?

1. Costs: As there is a strong feeling that any proposal we put forward should be specifically paid for and solidly within a balanced budget plan for 2002, cost matters and offsets are critical. Therefore, as we consider each proposal we have to do a cost-benefit calculation for each new benefit or population covered in light of the difficulty of finding the necessary offset. This is compounded by the fact that the Administration already has supported new proposals such as the adoption tax credit and Kassebaum-Kennedy that add costs. Some of these proposals have become law and we have to account for them. Others are current proposal and we could limit what we are calling for:(for example, we could trigger off or limit the years of the Section 127 extension even though our preference is to extend it permanently.) Some feel that if we are offering a new benefit, we should very clearly show how it does cost more funds and how we going to pay for it, so that no one can accuse us of playing a shell game.

Current Cost Estimates:

- \$1,500 for 13th and 14th Grade Full-Time
- \$750 for 13th and 14th Grade Part-Time
- \$10,000 Deduction (yet only at 15% bracket)

Current Income Limits: (FY97-2002) \$46.1 (FY2002) \$11.8

Lower Income Limits: (FY97-2002) \$38.5 (FY2002) \$9.9
\$80,000-\$100,000 Joint
\$50,000-\$70,000 Individual

Current \$10,000 Deduction (FY96-2002) \$41.2 (FY2002) \$8.0

If Payment is made in the current fiscal year -- through immediate voucher, it will increase the costs \$7-8 billion over FY97-2002, but only marginally in FY2002

Note: The numbers appear to be working out better than expected because of the savings from limiting the \$10,000 deduction to 15% for all filers.

Note: The main reason why the numbers are lower than our current proposal, is that our current proposal is a seven year estimate and the new proposal are six years.

2. **Can We Say It Is 'Free'?** One of the main features of the proposal is the promise of "free 13th and 14th grade." We need a claim that is clear and yet does not overstate our case and leave us vulnerable to later critiques. First, that means making clear that we are speaking of tuition -- not all costs including room and board. Second, it means ensuring that we are clear that the promise is "free tuition at the average community college" or "free tuition for states that are near the national average" or allows every state to offer free tuition for 13th and 14th grade." If we simply say we "promise every student free 13th grade and 14th grade" -- it likely that the media will spend considerable time trying to find any conceivable hole in that promise.

State Control of Tuition and State Variation: One of the reasons it is difficult to ensure "free tuition for everyone" is that community college tuition varies by state and is controlled by state legislatures. The cost of community college averages close to \$5000-\$6000 a year. State legislatures subsidize the majority of those costs, and the rest (\$1200 on average) is paid for by tuition. *Therefore, while our proposal is indexed for CPI, it is still in the hands of each state legislature to determine how much they will subsidize education and therefore how much they will charge for tuition, and therefore, whether or not our credit does or doesn't ensure that tuition is "free."*

- *Every student could be guaranteed free tuition at an average community college:* A \$1,500 credit would ensure that 67% of full-time community college students would get free tuition at the average community college in their state. We have analyzed two figures: \$1200, the national average community college tuition, and \$1500, an amount that ensures free tuition for 67% of students and 34 states. 59% of students in community college pay less than \$1200 and 81% of students pay less than \$1600.
- *We could state that we are proposing a credit that allows every state to offer "free tuition;"* By showing that we are paying for a credit that is above the national average (\$1500), we can state that we are making it possible for every state to offer free tuition for community college and that if it is not free, the finger should point to the state legislature. Option 3 is an attempt to tie the funding specifically to a state match to make full-time community college education free.

3. The Issue of States Raising Their Tuition In Response to the Credit.

The single hardest problem in the "free 13th and 14th grade proposal" is the problem of states' raising tuition.

- **States Above the Average:** If states charge tuition above the national average -- for example \$2000 -- some would argue that a guarantee of \$1500 would cause them to raise tuition under the premise that students now owe only \$500 and could certainly pay more. The opposing argument, would be that if the President of the United States highlighted that states that were above the \$1200 national average were denying their students free education, state legislatures would feel political pressure to not push up their costs. Some at CEA would reply that as the spotlight wore off, states would gradually raise tuition or find other ways -- such as lab fees -- to raise costs.
- **States Below the National Average:** While the behavior in states above the average is subject to some dispute -- though most economists would argue prices would rise -- everyone agrees that states below the "award amount" would have a strong incentive to raise costs. In other words, if Montana charges \$800 for full-time tuition, and we guarantee a full credit up to \$1500, most believe that Montana would have a strong incentive to raise tuition to \$1500. This may be the toughest conceptual problem with our proposal.

Possible Solutions:

- **Tuition Index Controls or Maintenance of Effort:** Requiring states not to raise tuition above CPI or to maintain their current level of subsidy would punish states like California who have significantly subsidized community college education. Everyone on your economic team opposes this.
- **State Match Requirement:** One could look for a state-match requirement that ensures free 13th and 14th grade conditioned on states doing their part.
- **Consumer Pressure:** One could also give funds directly to consumers and let them use extra funds for room and books (Option 4). This would create strong political pressure not to raise tuition.
- **Funds Must Supplement State Education Spending, Not Supplant It:** We could acknowledge that states that subsidized education beyond the national average, might choose to change their tuition, but only if the additional revenue from the difference between their current tuition and the credit is used to *supplement* other forms of scholarship funds for education in their state.

4. **Who would benefit?** Another key issue -- directly related to the cost constraint -- is who would benefit from each proposal. All of the proposals would clearly help those who go to two years of full-time college. For many going to community college, it would mean "free tuition," for those going to more expensive colleges it would mean a \$1500 downpayment. The question as we go through is the people who don't fit into those categories: older workers, working single parents etc. The options include -- if we can afford it -- a \$750 credit for half time students for to ensure that this proposal includes as many people as possible. The Labor Department has suggested that the credit apply to students in non-degree technical schools. This would cost as much as \$1 billion more a year. The credit would not cover the following:

- attending a non-degree program, such as some technical and vocational schools
- attending a degree program less than half-time (or perhaps less than full time)
- who have already had two years of post-secondary school and are honest about it (students could get the credit if the school considers them a freshman or sophomore)

Nevertheless, these students and workers would still benefit from our proposal even though they may not qualify for the credit. *All of these students would be eligible for the \$10,000 tax deduction for an unlimited number of years, with the exception of those taking classes less than part-time that are not related to their career.* Many would also be eligible for Pell Grants (which now average \$1,600), Skill Grants (up to \$2600) to pursue training in the program of their choice, student loans, work-study, or a combination of them. They or their families would also be eligible to save tax-free for their education under your IRA proposal.

5. Administration and Implementation: Most advisors believe it is important for the tax credit to be seen as immediately tangible for people going to school. Therefore, Treasury Department is devising ideas for how to allow the funds to go immediately and directly to the school so that the proposal is not seen as telling people to borrow for 12 months and then later get tax relief for tuition. Delivering the credit when tuition is due rather than when taxes are filed would make tuition seem more free, might encourage even more students to enroll, and would reduce the IRS's involvement with the credit. It could be done by sending the student or the school a voucher-like check for tuition. One problem is that as this voucher approach is developed in more detail, Republicans may seek to portray it as a spending program -- especially since they already portray refundable EITC credits as outlays. Furthermore, it would increase the overall costs of the program by \$7 billion over 6-7 years. One option is to suggest administration ideas and make clear that we will work with state officials and colleges to devise a system that works best for everyone.

SECTION IV. PROS AND CONS

Pros and Cons on Specific Options.

Option 1: Repackage Policies and Proposals As Guaranteed Access Accounts

Pros:

- Shows consistency by staying with the Middle Class Bill of Rights proposals
- Highlights the impressive proposals we have
- College access is now guaranteed and we should stress that
- Does not leave us open to "bidding" war critiques
- Speeches and paid media can help get this message out

Cons:

- Unlikely to get news. The press will ask what proposals are new and if it is not significant, it is unlikely to get major bounce.
- Without new proposal showing "free 13th and 14th grade," we will not get the news hook that would allow us to get the message out that all college access is guaranteed.
- Does not set out a bold enough new vision of our major goals for the second term.

Comments On Option 1a -- Option 1 with a Sweetener: If there is a less expensive "sweetener" it would have to be something of news value. Perhaps, a strong move on clarifying and encouraging state pre-paid tuition savings plans would have that kind of bounce.

Option 2: Tax Credit for 13th and 14th Grade Combined with \$10,000 Deduction

\$1500 for 13th and 14th Grade Full-Time
\$750 for 13th and 14th Grade Part-Time
\$10,000 Deduction (yet only at 15% bracket)

Pros:

- Allows for claim that we are providing "free 13th and 14th grade" for average and above average community colleges.
- Keeps the \$10,000 deduction from Middle Class Bill of Rights, and reduces the costs by limiting the deduction to 15% -- even for those in the 28% bracket.
- \$750 half-time credit ensures that young parents as well as older workers switching jobs can take advantage of the new tax credit. Along with the \$10,000 deduction, skill grants, IRAs, and Pell Grants, this would provide a strong life-long learning program.

Cons:

- There is strong argument to assume that states with lower than average tuition would raise their tuition for full-time students to \$1500 and half-time students to \$750. Thus many follow-up stories on the proposal may be on the likelihood of tuition being raised.
- If only full-time students were covered, part-time students may pressure the state and the schools not to raise tuition because it might affect their costs. If part-time students receive a credit, there may be very little incentive for below average tuition states to raise tuition to \$1500.
- One-third of community college students -- who are in 16 states -- would not get "free tuition" and some might contest our "free" claim, even though we called it "free tuition at an average priced community college."

Option 2 b: Option 2 without the credit for part-time students.

Pros:

- Reduces the expense
- Leads to more constraint on state legislatures to not raise tuition
- Older Americans would still be eligible for \$10,000 deduction, skill grants, IRAs and Pell Grants
- Encourages more people to go full-time, which is highly correlated with successfully graduating

Cons:

- The main attraction of the new proposal -- the tax credit -- would not reach many part-time students and people going to school while working.
- Would not be as strong in appealing to our message of helping working parents and worker anxiety.

Option 2c: Same as Option 2 But The Credit Would Be Available to Students in Non-Degree Programs.

Pros:

- More inclusive and deals more with helping existing workers get new skills and earn more income.
- Covers students out of high school going to vocational schools with one year length.

Cons:

- Would cost about \$1 billion more per year than Option 2. No official estimate yet.

Option 3: Ensure Free College Tuition by Offering to Match 75% of Tuition for Community College (up to \$1000-\$1500)

Pros:

- Allows Administration to claim that we have done our part to make tuition free for 2 years of community college, and puts the burden on states if it does not happen.
- Gives states more incentive to keep tuition down. With no state match, a state that charges \$1000 has a strong incentive to simply raise tuition. Under this proposal, the state would now get \$750 per full-time student if it chipped in \$250. If it raises tuition to \$1500, its students would get \$1125, but the state would have to pay another \$375 -- an additional \$125. So while there would still be an incentive to raise tuition, it would be modified.

Cons:

- Would lead tax credit to be different in every state and would increase complexity.
- Makes it seem less like a tax credit, though could still be described as a state-specific tax credit

Option 4: Give a Set National Credit Directly to Eligible Students Regardless of the Costs of Tuition in Their State

Pros:

- Can be described as allowing the \$1500 to be used for room, board and books for states that subsidize beyond the national average.
- If a student in an \$800 state believes he or she will have \$700 in cash, they will apply political pressure to their state officials not to raise tuition.

Cons:

- Some might find it unseemly for students to get a check they use for outside expenses simply for going to community college.

Option 5: Expand Pell Grants To Guarantee All Students a Minimum of \$1200-\$1500. This option does not include a new tax proposal.

Pros:

- Builds off an existing program and would be easy to deliver directly to schools.
- Simple and clear idea: everyone gets at least \$1500 and poorer students get more.

Cons:

- Defeats the whole purpose of proposing a targeted *tax cut* for education.
- Changes Pell Grant to a middle class entitlement.

OPTIONS FOR EDUCATION PROPOSAL

OPTION 1: **Guaranteed Access Accounts or Plans with Possible New Proposals**

Stress the importance of every American achieving at least two years of higher education -- 13th and 14th grade -- and stress that because of the President's policies every American has guaranteed access to \$6000 (or more?) of grants and loans.

This option would be designed to communicate that today everyone does have guaranteed access to higher education, and that the President's vision was to take down more barriers and have more people gain higher educations. We could describe these benefits as "Individual Education Accounts" or "Individual Learning Accounts."

We could also seek more of a one-stop shopping approach where all American could come to one place and get their package of guaranteed access at one place. The current elements would include:

- Announce 7 Year Increases in Pell Grants
- Announce 7 Year Increased work study (in budget plan)
- \$10,000 tuition deduction
- Loans -- with pay-as-you can repayment
- Skill Grants
- Expanded IRAs to save tax-free for education and training
- National Service -- Americorps Grants

OPTION 1 B: **Need for New Hook:** In order to draw attention to the entire package, something new could be offered:

- **Savings Plans:** In addition to the IRA,

Pre-Paid Tuition Savings Option: Treasury could offer clarification that made clear that IRS would allow state-pre-paid tuition. We could also propose that savings in these plans not be counted as income for federal aid eligibility and call for schools and states to do the same.

New Education Savings Bonds: These already exist, yet we could make them eligible for training.

- **Interest deductibility:** Make interest on loans deductible. This is highly popular. Republicans had a small option like this in one of their balanced budget proposals in response to our \$10,000 deduction.

- **\$1000 Credit as Part of Guaranteed Access Plan:** The message would still be guaranteed 13th and 14th grade, yet the package would be one that did not emphasize "free" tuition. Rather it would be guaranteed access that includes \$1000 minimum grant that can be used for any purpose in ones first two years.

OPTION 2: Tax Credit for 13th and 14th Grade Combined with \$10,000 Deduction

- \$1,500 for 13th and 14th Grade Full-Time
- \$750 for 13th and 14th Grade Part-Time
- \$10,000 Deduction (yet only at 15% bracket)

\$1500, Full-Time: Full-time students in degree programs would be guaranteed \$1,500 for tuition from either a refundable tax credit or a Pell Grant. In other words, if someone had a \$1,500 Pell Grant they would not get a tax credit, and if they received a \$1,000 Pell Grant they would get a \$500 tax credit. This ensures that every young person is guaranteed a "free tuition" at an average priced community college. It would be enough to cover the average tuition for community colleges in 34 states, which include 67% of community college students.

Up To \$750, Part-Time: Part-time students in a degree program could get a credit of up to \$750 per year for four years for up to half-time enrollment.

\$10,000 Deduction (15% Limit): About 70% of taxpayers are in the 15% brackets. Under our current proposal, a family in the 28% bracket could get a \$2800 tax cut. Under this option, the deduction would be taken in the 15% bracket, so the most a family could receive would be \$1,500 (15% of \$10,000).

Note: Option 2 could also be presented as part of a larger "guaranteed access" plan that presented our other options and Pell Grant increases over seven years.

OPTION 2B Same as Option 2 But The Credit Would Be Available to Students in Non-Degree Programs. This would include certificate and technical training programs. Some are concerned about proprietorship fraud and losing focus on 13th and 14th grade; others feel this meets the lifelong learning goals better by helping people do any career training enhancement. Such people are eligible for the \$10,000 deduction in any regard.

OPTION 2C: Includes Benefits in 2 or 2A, Yet would Give Tuition Check Directly To Students: Under this model, a credit equal to the national average community college tuition would be given to each student directly -- regardless of the tuition costs in their state. Therefore, each full-time student would receive a \$1200 or \$1500 tax credit -- enough for full-time tuition at an average community college. If the state were high-priced, the \$1200 or \$1500 amount would not be enough for "free" community college, but that would be the fault of the state. For states that subsidized more than the national average -- so that community college tuition was only \$900 -- the student could keep the difference and apply the rest (\$300 if the credit were \$1,200) for books, room and board. The proposal is designed to give the student funds directly to create political pressure that would avoid having the state raise tuition -- as that would directly take funds from students pockets.

OPTION 2D:

**\$1800 Credit Full Time
\$900 half-time
\$10,000 at 15% Limit
\$Non-Degree Students Included
B Average with 90 % attendance Requirement
Limitation on Participating States to Raise tuition**

\$1800 Credit -- 90% Goal: This option is more generous than the other Options 2, because of the \$1800 credit -- which is designed to ensure that community college is free for 90% of eligible students.

B Average Requirement and 90% Attendance: It lowers the costs, however, by limiting the pool of participants through a "B" average requirement. Depending on how "B" is defined, 43-62% of college students had a B average in high school according to the latest -- albeit -- outdated data. Others support the "B" average for its responsibility message and because it links the proposal to the Georgia Hope Model. Some have suggested that we specifically link our proposal to the Georgia model, even though this is a tax credit and Georgia's is a scholarship program. There could

*** Second Chance Options:** States could offer students a second chance if they got a B average in their freshman year or if they passed -- at anytime -- a high standards graduation exam as the President called for in the NGA speech.

Tuition Increase Limitation: This plan also includes a limit on how much tuition could be raised. It could be a high limit 8-10%, just to ensure that no state is rushing to jack up tuition prices.

MEMORANDUM FOR GENE SPERLING

FROM: Lisa Lynch
DATE: June 3, 1996
RE: More data on why education matters more
CC: Pauline Abernathy

In addition to the wage gains associated with a college degree, completing a college degree means that:

1.) A college graduate is 43 percent more likely to be working in a job with a pension plan than a high school graduate. In 1993 (the most recent year data are available) 66% of college graduates were working in a job with pension coverage versus only 46% of high school graduates.

2.) A college graduate is 27 percent more likely to have a job with health care coverage than a high school graduate. In 1993 (the most recent year data are available) 76% of college graduates were working in a job with health care coverage versus only 60% of high school graduates.

3.) High school graduates are more than twice as likely to be unemployed than college graduates. The unemployment rate for high school graduates in 1995 was 5.8% and only 2.6% for college graduates.

4.) High school graduates are more than three times as likely as college graduates to be poor. In 1994 (the most recent year data are available) 10.6% of high school graduates over the age of 25 were in poverty while only 3.3% of college graduates were in poverty (I bet a lot of these are grad students!).

5.) Since the early 1980s, high skill jobs are growing the fastest. Jobs requiring high skill levels grew by 32% over the period 1984-1994 while jobs requiring low skill levels grew by only 7%.

Source: Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.

Economic Returns to Education and Training

- Empirical studies indicate that each additional year of formal schooling is associated with a 5 to 15 percent increase in annual earnings later in life. [Economic Report of the President 1996, page 196; and David Card, "Earnings, Schooling, And Ability Revisited," *Research in Labor Economics*, Vol. 14, 1995.]
- This earnings benefit is not limited to education at four-year colleges; it also accrues from attendance at community colleges. [Thomas Kane and Cecilia Rouse, "Labor Market Returns to Two- and Four-Year College, *American Economic Review*, Vol. 85, No. 3, 1995.]
- The wage premium for better-educated workers has expanded dramatically over the past fifteen years. In 1979, full-time male workers aged 25 and over with at least a bachelor's degree earned on average 49 percent more per year than comparable workers with only a high school degree. By 1993, the difference had nearly doubled, to 89 percent. [Economic Report of the President 1996, page 191.]
- Economists have long argued over whether education *causes* higher earnings, or whether those with better earnings prospects -- for example, because of greater innate ability -- simply consume more education. Recent analyses of compulsory schooling laws (which force students to consume more education regardless of their innate ability) and wage differentials between twins (who should have similar levels of innate ability) strongly suggest that schooling actually leads to higher earnings. [Joshua Angrist and Alan Krueger, "Does Compulsory School Attendance Affect Schooling and Earnings?" *Quarterly Journal of Economics*, November 1991; Orley Ashenfelter and Alan Krueger, "Estimates of the Economic Return to Schooling from a New Sample of Twins," *American Economic Review*, December 1994.]
- Job displacement studies show that better-educated workers are less likely to lose their jobs than less-educated workers, although this advantage has declined over time. If better-educated workers do lose their jobs, they are more likely to find new jobs (which are more likely to be full-time), and they tend to suffer smaller proportional earnings losses than less-educated workers. [Henry S. Farber, "The Changing Face of Job Loss in the United States, 1981-1993," Department of Economics, Princeton University, March 12, 1996.]
- Training workers also has significant payoffs. According to academic research conducted by Lisa Lynch before she became Chief Economist at the Labor Department, a year of either on-the-job training or formal training for workers raises wages by about as much as a year of college education. [Lisa Lynch, "Private Sector Training and the Earnings of Young Workers," *American Economic Review*, Vol. 82, No. 1, 1992.]

- Other studies conclude that firm-provided training seems most effective when combined with other innovative workplace practices. [U.S. Department of Labor, *High Performance Work Practices and Firm Performance*, 1993; David Levine, *Reinventing the Workplace: How Business and Employees Can Both Win* (Washington: Brookings, 1993).]
- Education and training boost economic growth. Data from the Bureau of Labor Statistics suggest that the rise in the average educational attainment of the workforce accounted for one-fifth of the annual growth in productivity between 1963 and 1992. [Economic Report of the President 1996, pages 191-2.]
- International evidence reveals that, all else equal, those nations with the highest school enrollment rates tend to enjoy the most robust growth. [N. Gregory Mankiw, David Romer, and David Weil, "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, Volume 107, May 1992.]

The Administration has not scored this proposal since repeal in FY 1991.

Proposal: OMB
CBO

DEPARTMENT OF TRANSPORTATION

Proposal: Sell Union Station, Wash., D.C.

Receipts	OMB	0	0	0	0	0	0	0	250	250
	CBO 1/	0	0	0	0	0	0	0	0	0

Description:

Proposal for sale of Washington, D.C.'s Union Station terminal and mall owned by DOT. Sale would include a covenant that would ensure the station's continued preservation as a landmark and monument. In addition, new owners would be required to ensure continued use as a rail passenger facility. Senate Amtrak authorization bill transfers ownership to Amtrak at no cost. This proposal is not the same as sale of Union Station air rights, as included in various reconciliation bills.

New proposal, CBO has not scored.

Department of Transportation

Federal Aviation Administration

Proposal: Increase International Departure Tax

Receipts	OMB	337.5	354	372	391	410	431	2295.5
	CBO							

Description of proposal: The President's FY 97 Budget assumes that the currently expired aviation excise taxes, including the \$6 per passenger international departure tax, will be reinstated in August, 1996. This offset proposal would increase the per passenger tax from \$6 to \$16.

Source of proposal: West Wing

Opposition to this proposal is expected to come from foreign governments, foreign air carriers, and domestic air carriers with international routes.

Federal Employee Parking

Proposal: Change Commercial Parking Rates

	OMB	100	100	100	100	100	100	600
	CBO	100	100	100	100	100	100	600

This proposal would require federal agencies to charge commercial equivalent parking rates for parking spaces in federal facilities. In short, federally subsidized parking would be eliminated. Using OMB as an example, the monthly parking rate would escalate from \$26 to \$150. The rationale behind such a proposal includes the following: 1) It diverts traffic to mass transit, 2) it is favored by environmentalists, and 3) it is supported by D.C. government. This proposal represents a variation of the Administration's proposal to allow federal agencies to charge commercial equivalent

23

Row A
(P47997-2000)

\$
\$2.1

2nd Feb 7th

\$2.3

POTENTIAL OFFSETS
(dollars in millions)

DEPARTMENT OR AGENCY:		<u>1997</u> Receipts	<u>1998</u> Receipts	<u>1999</u> Receipts	<u>2000</u> Receipts	<u>2001</u> Receipts
Federal Communications Commission						
Proposal: Auction DARS spectrum					2,100	0
Receipts	OMB	0	0	0		0
	CBO	0	0	0	2,100	0

The President's FY 97 Budget contains \$36.9B in spectrum auction revenues. These revenues are broken down as follows (as scored by CBO): \$19.2B for non-broadcast spectrum, \$17B for analog broadcast spectrum, and \$0.7B for vanity "888" phone numbers.

These proposals are added on to the spectrum auctions authorized by OBRA '93. The FCC will not finish auctions authorized in '93 until 1999, at the earliest. In addition, the House version of the repeal of the gas tax has an offset of 35 Mhz revenue that the FCC would be required to auction in 1998.

Another option, scored above, would be to auction 25 Mhz of spectrum currently reserved for digital audio radio services (DARS) for subscription based wireless services. The FCC had originally allocated 50 Mhz for DARS, which would provide 4 channels of a national, subscription-based radio service. Due to interference problems with Canada, DARS would be allocated 2 channels instead of 4, freeing up 25 Mhz for auction. The revenues for auctioning 25 Mhz of spectrum are estimated at \$2.1B by CBO and OMB. These auctions could be done in any year. The revenue is shown in 2000 since the FCC will be very busy with auctions in process and the non-broadcast proposals in the 1997 budget until at least 1999.

We also reviewed proposals to free up additional Federal agency spectrum, but we do not believe this is practical at this time. OBRA '93 required 235 Mhz of Federal spectrum to be turned over to the FCC for auction. This spectrum has not yet been auctioned. In addition, the \$19.2B non-broadcast spectrum proposal requires another 20 Mhz of Federal spectrum to be turned over to the FCC. The reduction in the amount of Federal spectrum has caused the state and local public safety community as well as many Federal agencies that rely heavily on spectrum use (such as the Army, Navy, Air Force, FAA, and Justice) to voice strenuous objections.

Immigration and Naturalization Service

Proposal: Border Crossing Fee Receipts	OMB	34	34	34	34	34
	CBO

In the context of the 1996 President's Budget, the Administration proposed legislation which would have allowed the establishment of a "local option" border crossing fee at land ports-of entry. This fee would be used to enhance buildings, roads and infrastructure and hire additional staffing. The receipts were also expected to cover the cost of collecting the fees. This proposal was not included in the 1997 President's Budget however.

The \$34M of receipts shown above represents a "local option" border crossing fee, but with all receipts being used to offset the deficit, rather than being used to offset INS costs.

To our knowledge, CBO has not scored the Administration's local option proposal.

S.
P.

The Administration proposed this proposal since repeal in FY 1991.

Proposal: OMB
CBO

DEPARTMENT OF TRANSPORTATION

Proposal: Sell Union Station, Wash., D.C.

Receipts	OMB	0	0	0	0	0
	CBO 1/	0	0	0	0	0

Description:

Offer for sale Washington, D.C.'s Union Station terminal and mall owned by DOT. Sale would include a covenant that would ensure the station's continued preservation as a landmark and monument. In addition, new owners would be required to ensure continued use as a rail passenger facility. Senate Amtrak authorization bill transfers ownership to Amtrak at no cost. This proposal is not the same as sale of Union Station air rights, as included in ve

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Department of Transportation

Federal Aviation Administration

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Source of proposal: West Wing

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Federal Employee Parking

Proposal: Change Commercial Parking Rates

	OMB	100	100	100	100	100
	CBO	100	100	100	100	100

This proposal would require federal agencies to charge commercial equivalent parking rates for parking spaces in federal facilities. In short, federally subsidized parking would be eliminated. Using OMB as an example, the monthly parking rate would escalate from \$26 to \$150. The rationale behind such a proposal includes the following: 1) it diverts traffic to mass transit, 2) it is favored by environmentalists, and 3) it is supported by D.C. government. This proposal represents a variation of the Administration's proposal to allow federal agencies to charge commercial equivalent

FACSIMILE COVER SHEET



UNITED STATES DEPARTMENT OF EDUCATION
600 Independence Ave., SW
ROB-3 Room 4082
Washington, DC 20202-5100

OFFICE OF THE ASSISTANT SECRETARY
FOR POSTSECONDARY EDUCATION

PHONE: (202) 708-5547 FAX: (202) 708-9814

DATE: 6/1/96

No. of Pages(including cover): 4

TO: Pauline Abernathy

FAX #: 456 - 2878

FROM:

David A. Longanecker Diane Rogers

P.J. Sanders Jill Riemer

Terri Douglas-Scott Richard Jameson

Cindy Fisher Pat Pilkerton

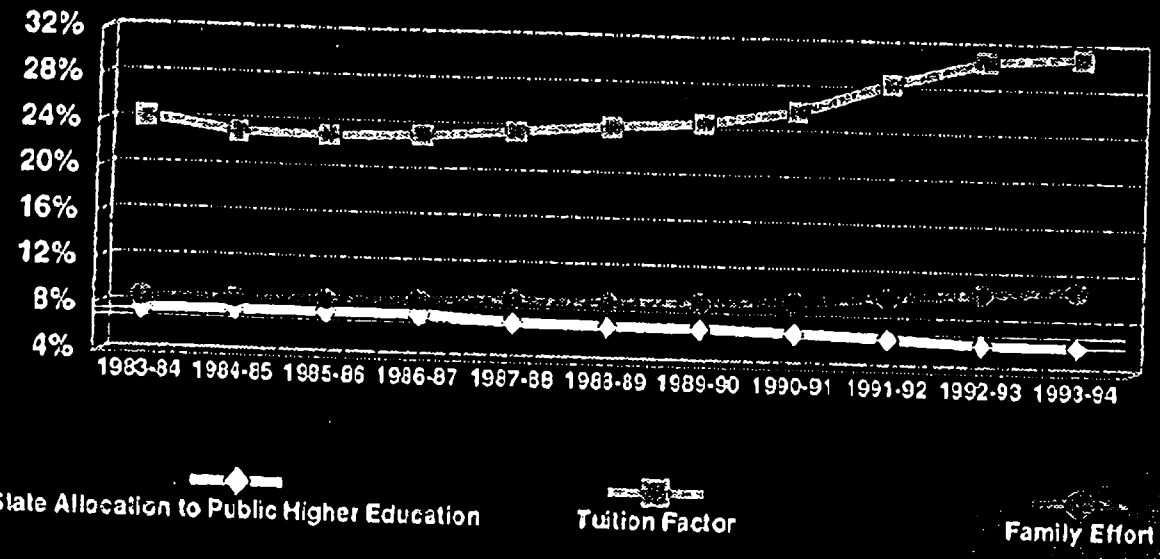
Matt Boggs Albertha McCord

Sent by: _____

NOTES: Some misc. tables showing how
tuitions have been increasing as a share of cost
& what our Pell proposal would accomplish.

*****If there are any problems with this transmission please call
(202) 708-5547 immediately.*****

Trends in Funding Public Higher Education



Source of Data: State Profiles: Financing Public Higher Education 1978 to 1995. Research Associates of Washington.

- State Allocation to Public Higher Education—State higher education appropriation as a percent of tax revenue
- Tuition Factor—Tuition as a percent of appropriation plus tuition
- Family Effort—Tuition relative to personal disposable income per capita
- Source of Data— State Profiles: Financing Public Higher Education 1978 to 1995. Research Associates of Washington

PREPARING YOUR CHILD FOR COLLEGE

I. General Questions About College	
Why attend college?	1
What types of colleges exist?	2
What kinds of jobs are available to college graduates?	4
II. Preparing for College	
What can my child do to prepare academically for college?	7
What can my child do outside the classroom to prepare for college?	13
III. Choosing a College	
How can my child go about choosing a college?	14
IV. Financing a College Education	
How much does a college education cost?	17
How can I afford to send my child to college?	20
What are the most common sources of financial aid?	27
Is my child eligible for financial aid? If so, how much?	29
Are there other ways to keep the cost of college down?	32
V. Long-Range Planning	
How do I set up a long-range plan?	34
VI. Important Terms	
What terms do I need to understand?	38
VII. Other Sources of Information	
Where can I get more information on the topics discussed in this handbook?	41

Why attend college?

A college degree can provide your child with many opportunities in life. A college education can mean:

▼ Greater Knowledge

A college education will increase your child's ability to understand developments in science and in society, to think abstractly and critically, to express thoughts clearly in speech and in writing, and to make wise decisions. These skills are useful both on and off the job.

▼ Greater Potential

A college education can help increase your child's understanding of the community, the Nation, and the world—as he or she explores interests, discovers new areas of knowledge, considers lifelong goals, and becomes a responsible citizen.

▼ More Job Opportunities

The world is changing rapidly. Many jobs rely on new technology and already require more brain power than muscle power. In your child's working life, more and more jobs will require education beyond high school. With a college education, your child will have more jobs from which to choose.

▼ More Money

A person who attends college generally earns more than a person who does not. For example, in 1992, a person with a college degree from a four-year college earned approximately \$11,000 more in that year than a person who did not go to college. With a college education, your child can earn higher pay.

Some of these benefits of college may not be obvious to your child. Even though he or she has to make the final decision to attend college, you can help in the decision-making process by learning about all aspects of college yourself and sharing what you learn with your child.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE;

FOR THE RECORD, I AM DAVID LONGANECKER, ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION, AND I AM ACCOMPANIED THIS MORNING BY LEO KORNFELD, SENIOR ADVISOR TO THE SECRETARY OF EDUCATION FOR DIRECT LENDING.

I HAVE SUBMITTED A COMPLETE TEXT OF MY REMARKS FOR THE RECORD. BEING RESPECTFUL OF THE LIMITS ON YOUR TIME I WILL SUMMARIZE THOSE REMARKS IN A MORE BRIEF OPENING STATEMENT BEFORE YOU THIS MORNING.

IT IS, AGAIN, A PLEASURE TO APPEAR BEFORE YOU TODAY TO SHARE WITH YOU THE ADMINISTRATION'S REQUEST FOR FUNDS FOR FEDERAL POSTSECONDARY EDUCATION PROGRAMS FOR FISCAL YEAR 1997.

THE BUDGET REQUEST THAT WE PRESENT TO YOU TODAY REFLECTS PRESIDENT CLINTON'S STRONG BELIEF THAT IT IS IN THIS COUNTRY'S BEST INTEREST TO INVEST IN THE CONTINUED EDUCATION AND DEVELOPMENT OF OUR RICHEST RESOURCE, OUR PEOPLE. IT IS A BUDGET REQUEST THAT IS WHOLLY CONSISTENT WITH THE DEPARTMENT OF EDUCATION'S MISSION "TO ENSURE EQUAL ACCESS TO EDUCATION AND PROMOTE EDUCATIONAL EXCELLENCE." IT IS A BUDGET REQUEST THAT EMBODIES THE PRESIDENT'S LONG STANDING CONVICTION THAT THE FEDERAL GOVERNMENT HAS A RESPONSIBILITY TO ASSURE EDUCATIONAL OPPORTUNITY, BUT THAT WITH THAT OPPORTUNITY COMES RESPONSIBILITY ON THE PART OF THE RECIPIENTS. AND, OF COURSE, IT IS PART OF AN OVERALL BUDGET THAT RECOGNIZES THE NEED FOR BALANCING THE FEDERAL BUDGET, BUT ALSO RECOGNIZES THAT THIS COUNTRY, TO REMAIN GREAT, MUST CONTINUE TO MAKE STRATEGIC INVESTMENTS.

THE BUDGET WE PROPOSE FOR POSTSECONDARY EDUCATION REFLECTS:

- SOME AREAS WE BELIEVE ARE SO IMPORTANT TO THIS COUNTRY THAT THEY WARRANT INCREASED FEDERAL COMMITMENT.
- A NUMBER OF AREAS WHERE WE BELIEVE THE FEDERAL ROLE IS CLEARLY ESTABLISHED AND EFFECTIVE, AND SHOULD BE SUSTAINED.
- AND A FEW TARGETED AREAS WHERE WE BELIEVE IT WOULD BE PRUDENT, GIVEN THE FINANCIAL CONSTRAINTS UNDER WHICH WE ARE ALL OPERATING, TO REDUCE OR ELIMINATE FEDERAL INVOLVEMENT.

THERE ARE FIVE SPECIFIC INITIATIVES FOR INCREASED FUNDING IN THIS BUDGET.

WE BELIEVE THAT THE PELL GRANT MAXIMUM SHOULD BE INCREASED TO \$2700. THAT IS CONSISTENT WITH OUR REQUEST LAST YEAR. AS THE FOUNDATION PROGRAM FOR NOT ONLY FEDERAL BUT ALL STUDENT FINANCIAL AID, WE MUST ASSURE THAT EDUCATIONAL OPPORTUNITY FOR THE MOST NEEDY STUDENTS IS RETAINED THROUGH CONTINUED AND INCREASED SUPPORT FOR THE PELL GRANT PROGRAM.

CONSISTENT WITH THE THEME OF PROVIDING OPPORTUNITY WITH RESPONSIBILITY, THE PRESIDENT ALSO PROPOSES AN INCREASE IN

CWS. WE WILL PROPOSE AN INCREASE OF 10 PERCENT PER YEAR FOR THE NEXT FIVE YEARS, TO ALLOW THIS PROGRAM TO GROW TO THE POINT WHERE IT WILL SERVE 1 MILLION STUDENTS BY THE YEAR 2000.

AND WE ARE PROPOSING A NEW PRESIDENTIAL HONORS SCHOLARSHIP OF \$1000 FOR THE TOP FIVE PERCENT OF EVERY HIGH SCHOOL GRADUATING CLASS. THIS WOULD REINFORCE BOTH OUR STRONG PUSH FOR ENCOURAGING STUDENTS TO ACHIEVE TO HIGHER STANDARDS AND OUR BELIEF THAT HIGH SCHOLASTIC ACHIEVEMENT SHOULD BE REWARDED.

THOUGH NOT IN OUR BUDGET REQUEST, A THIRD PIECE OF THIS THEME IS THE \$10,000 TAX DEDUCTION WE PROPOSE FOR EDUCATIONAL EXPENSES.

WE ARE ALSO PROPOSING AN 8 PERCENT INCREASE FOR THE TRIO PROGRAM BECAUSE EVALUATIONS OF THE PROGRAM HAVE SHOWN IT TO BE QUITE SUCCESSFUL IN ENCOURAGING COLLEGE PERSISTENCE -- SO IT ADDRESSES BOTH ACCESS AND QUALITY.

AND FINALLY, WE PROPOSE A MODEST INCREASE IN THE FIPSE PROGRAM, BECAUSE IT HAS PROVEN SO SUCCESSFUL IN PROMOTING INNOVATION AND IMPROVEMENT IN POSTSECONDARY EDUCATION.

WE HAVE PROPOSED SUSTAINED FEDERAL COMMITMENT TO MOST OF OUR OTHER PROGRAMS, INCLUDING THE DIRECT LOAN PROGRAM, CAMPUS-BASED PROGRAMS OTHER THAN CWS, THE TITLE III-- DEVELOPING INSTITUTIONS PROGRAMS, INTERNATIONAL EDUCATION PROGRAMS, AND GRADUATE EDUCATION. WE BELIEVE THAT THESE PROGRAMS HAVE PROVEN TO BE IMPORTANT AND WORTHWHILE FEDERAL INVESTMENTS, AND SHOULD BE CONTINUED. IN SOME CASES, OUR POSITIONS HAVE CHANGED FROM PREVIOUS YEARS. IN PART, THIS IS BECAUSE WE HAVE LISTENED TO YOU, THE CONGRESS, FOR EXAMPLE WITH RESPECT TO DIRECT LOANS, WHICH WE BELIEVE SHOULD OPERATE IN COMPETITION WITH THE OLD PROGRAM, RATHER THAN AN ALL AND NONE POSITION, WHICH WE PROPOSED LAST YEAR. IN OTHERS, WE HAVE CHANGED BECAUSE MORE KNOWLEDGE ABOUT THE PROGRAM HAS CONVINCED US OF THEIR VALUE -- FOR EXAMPLE, GRADUATE EDUCATION: -- COMMITMENT TO THOSE IN THE PIPELINE -- AND COMMITMENT TO CONTINUING A CADRE OF HIGHLY EDUCATED INDIVIDUALS, AND ONE REFLECTIVE OF OUR WHOLE POPULATION, NOT JUST THE MOST ADVANTAGED.

WE HAVE ALSO PROPOSED SOME TARGETED BUDGET REDUCTIONS. IN THE AREA OF STUDENT LOANS, WE PROPOSE A NUMBER OF CHANGES IN THE PROGRAMS THAT WILL RESULT IN CONSIDERABLE COST SAVINGS. THESE CHANGES, TOGETHER WITH THE EXPECTED DECLINE IN INTEREST RATES, SHOULD RESULT IN A SUBSTANTIAL REDUCTION IN THE COST OF THESE PROGRAMS.

AND WE PROPOSE TO ELIMINATE SOME PROGRAM REDUNDANCIES AND AREAS WHERE THE PROGRAMS SERVE AN IMPORTANT NEED BUT HAVE NEVER GARNERED THE CRITICAL MASS NECESSARY TO SUSTAIN TRUE PROGRAM VITALITY. IN THIS BUDGET WE ARE NOT REQUESTING FUNDS FOR EIGHT PROGRAMS THAT ARE CURRENTLY FUNDED. COMBINED WITH

THE 12 PROGRAMS ELIMINATED OVER THE PAST TWO YEARS, THESE TARGETED REDUCTIONS WOULD TRIM OUR OVERALL INVENTORY IN A WAY THAT ASSURES THAT FEDERAL DOLLARS ARE BEING WISELY AND EFFICIENTLY SPENT.

OF COURSE, WE WILL DO THE BEST JOB POSSIBLE TO BE GOOD STEWARDS OF THESE FUNDS THROUGH OUR EFFORTS TO IMPROVE THE MANAGEMENT OF THE FEDERAL POSTSECONDARY PROGRAMS. WE ARE AN ACTIVE PART OF THE ADMINISTRATION'S OVERALL EFFORT TO REDUCE THE SIZE OF GOVERNMENT AND THE BURDENS THAT PARTICIPATING IN FEDERAL PROGRAMS CAUSES FOR OUR CUSTOMERS/THE SCHOOLS AND STUDENTS THEY SERVE. BUT WE INTEND TO MAINTAIN HIGH LEVELS OF PERFORMANCE AS WE SEEK TO REDUCE THE SIZE AND INTRUSIVENESS OF OUR ADMINISTRATIVE ACTIVITIES.

AGAIN, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU THIS MORNING. MR. KORNFELD AND I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS THAT YOU MIGHT HAVE.

PREPARING YOUR CHILD FOR COLLEGE

I. General Questions About College

Why attend college? 1

What types of colleges exist? 2

What kinds of jobs are available to college graduates? 4

II. Preparing for College

What can my child do to prepare academically for college? 7

What can my child do outside the classroom to prepare for college? 13

III. Choosing a College

How can my child go about choosing a college? 14

IV. Financing a College Education

How much does a college education cost? 17

How can I afford to send my child to college? 20

What are the most common sources of financial aid? 27

Is my child eligible for financial aid? If so, how much? 29

Are there other ways to keep the cost of college down? 32

V. Long-Range Planning

How do I set up a long-range plan? 34

VI. Important Terms

What terms do I need to understand? 38

VII. Other Sources of Information

Where can I get more information on the topics discussed in this handbook? 41

A NOTE TO PARENTS

It's never too early to think about college—about the benefits of a college education and about ways to put college within reach academically and financially. Throughout their school years, students make academic and other decisions that affect whether they will be eligible to enter college. You—working with others—can help your child make these decisions wisely.

This resource book is designed to help you with that process. It will help you work with your child and with your child's teachers and guidance counselors, to ensure that he or she has the option of going to college. It will help your child to prepare academically for the rigors of college, and it will help you to plan financially for the costs of a college education. A good academic record on your child's part and sound financial planning on your part will help ensure a menu of opportunities when the time comes to decide about college. Although this book was written primarily as a long-term planning guide for parents, guidance counselors and teachers will also find it useful and informative.

This book will help you to

- **Set high expectations for your child's future;**
- **Know what college options are available;**
- **Plan your finances with college in mind; and**
- **Know what financial assistance your child may be eligible to receive.**

To ensure that today's students will be able to live, work, and compete in the 21st century, the U.S. Department of Education and the Nation's governors set a direction for the nation by establishing six national education goals. In 1994, Congress passed the Goals 2000 Educate America Act, which incorporated the six goals

agreed upon by the governors and added two additional goals. In brief, the goals state that by the year 2000

- ▼ All children in America will start school ready to learn;
- ▼ The high school graduation rate will increase to at least 90 percent;
- ▼ All children will be competent in at least English, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography;
- ▼ The Nation's teaching force will have access to programs for the continued improvement of their professional skills;
- ▼ American students will be first in the world in mathematics and science achievement;
- ▼ Adult Americans will be literate and have the skills necessary to compete in a world economy;
- ▼ Every school in America will be free of drugs, violence, and the unauthorized presence of firearms and alcohol; and
- ▼ Every school will promote partnerships that will increase parental involvement and participation.

As we turn from a "Nation at Risk" to a "Nation on the Move" we must assure that our children and youth are prepared to meet the challenge of the world economy, the obligation of civic responsibility, and the responsibility of attaining the national education goals.

Attaining the national education goals depends greatly on the efforts of the entire community, but especially you, the parents of our children. In helping your child succeed in high school and aim for college, you're also helping our Nation produce informed citizens and a competitive work force for the next decade and beyond.

Richard W. Riley
U.S. Secretary of Education

P REPARING YOUR CHILD FOR COLLEGE



▼ A Resource Book for Parents

Second Edition



the dream because you don't know where to turn for financial help.

We believe in rewarding excellence and hard work. This is why President Clinton has called for the creation of a new Presidential Honor's Scholarship of \$1,000 for the top 5 percent of all graduating students in every high school in America.

We also believe that the maximum Pell Grant program should go up during each of the next five years to ultimately reach \$3,120. And it makes good sense to me to rapidly expand our college work-study program to help millions of young people get ahead in life.

I encourage Congress to see the merit and enact into law President Clinton's tuition tax deduction, which would allow middle-class families to deduct up to \$10,000 a year for college tuition and other costs. This is a sensible proposal that will make an immediate difference for thousands of American families.

To those who say we cannot afford to help this generation of young people -- I say look at our record of success and look down the road. We are on the brink of change -- at the gateway of a new time. This is absolutely the wrong time to cut our investment in education at all levels -- and the wrong time for Congress to be so out of touch with the American people.

THE CHALLENGE TO COME TOGETHER AS AMERICANS

The story of America in this century -- as I close now -- is the story of giving each new generation of Americans the opportunity to advance themselves through education. We are a people who believe in education, who know its value. And this I know for sure: We did not become the world's greatest superpower, the most productive nation in the world, on a foundation of ignorance.

As we cross this new frontier of knowledge, we need to recognize that the success and freedom of being an American -- in this day and age -- is the freedom of excellence -- the ability to be highly educated and highly trained -- to negotiate a complex economic environment to become productive and responsible citizens.

I urge every citizen in this great country to remember that we are raising our children not as Republicans, Democrats or Independents, but as Americans -- the future of our country. If we want to enlarge the civic life of this nation, let us re-energize our people's love of learning and put the "public" back into public education.

Improving education, caring for our children, keeping teenagers out of harm's way, and building our sense of community is a day-to-day civic task. What you put in, you get out -- that is the secret of success for American education. Just that.

Public education is one of the great essential building blocks of our democracy -- the public space

college education. That's the American middle class.

Today, two-thirds of all student financial aid dollars in this country come from my department. I am pleased to tell you that we have cut the student loan default rate in half, and we are collecting on many more defaulted loans, saving taxpayers millions of dollars.

Yet despite this good progress, we face difficulties reaffirming this national commitment to opening the doors to higher education even wider.

I remain perplexed, just about baffled, by the thinking of some in the Congress who want to cut student loans -- who don't seem to remember that they got their chance to go to college with the help of the American taxpayer. This is why we have spent the last year fighting to keep the new Congress from cutting \$10 billion from our student loan program.

I also once again urge the Congress to preserve and expand our "direct lending program" which has the support of America's higher education community. This is no time to cave into the special interests, who don't like the competition and who are up in arms because their profit margin is dwindling. Students will always win with healthy competition, and that is the right way to help America's colleges and universities.

As we look to the future we need to create a new sense of shared responsibility in finding new ways to finance American higher education. This needs to be a broad effort working on many fronts.

Our elementary and secondary schools must do a much better job of preparing students for college level work. As standards go up, colleges will be able to shift resources away from remedial courses.

State leaders must look down the road. In nine out of the last ten years, state budgets have declined in their commitment to higher education. This year, I see new evidence that many Governors are already thinking ahead.

They are increasing funding for higher education and supporting creative financing mechanisms, including: the creation of pre-paid college tuition programs; education IRAs; and tax credits for full-time students. I support these creative new initiatives.

I urge our colleges and universities to use their ingenuity to hold the line on the cost of going to college. We are already pricing too many young people -- smart students, who are just poor -- out of an education. And we have too many middle class families already stretched to the limit.

For our part, I want to speak directly to every high school student in America today and make this promise. If you do your share, we will do ours. Every deserving student who works hard can get needed financial help to pay the tuition at a two- or four-year public college through a combination of loans, grants, and work study options. If you want to go to college, don't give up



OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

KEEPING THE DOORS TO COLLEGE WIDE

Keeping the doors to college wide open is our seventh great challenge.

Today, our nation's system of colleges and universities represents the brightest gemstone in America's educational and economic crown. It is the envy of the world. For more than fifty years, we have made access to higher education part of the American Dream.

Yet today, the burden of paying for college is being placed more and more on students and their families. Students have taken on a larger share of the cost of their education. Four out of five students work today. And too many parents are trying to make ends meet while trying to save for their children's college education in the future.

In the last twenty years, forty million Americans have used a federal student loan to pay for their

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UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

Richard W. Riley
U.S. Secretary of Education

Third Annual
State of American Education Address
St. Louis, Missouri
Wednesday, February 28, 1996

EDUCATION: THE GATEWAY TO AMERICA'S FUTURE



Pauline,

To get started, I'm sending some of the resident material I had in my files and office on what we have been up to in higher education over the last three years. Attached are:

- The pages from Secretary Riley's February 28 "State of Education" speech regarding his challenge to keep the doors to college open.
- The introduction page(s) to the document Preparing Your Child For College, which incidently Maureen McLaughlin first authored when she worked in the shop that prepares this pub.
- The abbreviated introductory comments I made (not the full text for the record) before the House Appropriations Committee in our FY 97 Budget Hearing.

We're very proud of what the President has accomplished for higher education and appreciate the opportunity to work with you to tell the story. I hope this stuff helps you get started. Maureen and I (and others, if we need them) will help however we can.

I can be reached at:
office (202)708-5547
home (703)506-2604
pager 1 (800)710-4667

Please let us know how we can help.

Dave

CLAIM ON HOPE SCHOLARSHIPS WON'T INCREASE ENROLLMENT AND WILL MOSTLY HELP THOSE ALREADY PLANNING TO GO TO COLLEGE

CLAIM: "Money spent on the Clinton educational credit would mostly end up lining the pockets of students planning to further their education anyway. It will subsidize activities -- in this case, college education -- that many people would have undertaken without the sweetener."

THE FACTS:

1. HOPE SCHOLARSHIPS WILL HELP INCREASE ENROLLMENT BY REDUCING FINANCIAL BARRIERS TO HIGHER EDUCATION. THE PRESIDENT'S MESSAGE IS CLEAR: COSTS SHOULD NOT BE A BARRIER TO EDUCATION.

- **Tuition Help For Middle Class Families.** Over the past 15 years, the cost of tuition at public colleges has increased from 9% of the typical family's income to 14%. Government is not going to tell schools they must lower their costs or never raise their tuitions again. *But what we can do is provide middle-class families with a \$1,500 tax cut to help make sure that costs is not a barriers to 14 years of education.*
- **Greater Awareness of Tuition Assistance.** 100 million Americans file tax forms, but only 10 million Americans -- half of all college students -- apply for federal financial aid. *Now, every family will know that a \$1,500 tax credit and a \$10,000 tax deduction is available for college.*

2. EXPERTS AND THE GEORGIA EXPERIENCE POINT TO ENROLLMENT INCREASES.

- **David Pierce, Director of the American Association of Community Colleges.** "Chances are this type of initiative will cause students to enroll in universities, I tend to think there is an overall benefit to all students at all institutions." [USA Today, June 6, 1996]
- **Georgia's experience suggests the President's HOPE Scholarships will encourage many more people to go to college who may not have previously gone.** Since the start of the Georgia HOPE Scholarship program in 1993, enrollment in Georgia's technical and adult education institutions has increased *24 percent -- more than double the rate in the previous three years.*

3. PRESIDENT CLINTON'S NEW HOPE SCHOLARSHIPS TAX CUT BUILDS ON HIS COMPREHENSIVE COLLEGE-ACCESS STRATEGY TO HELP OPEN THE DOORS TO COLLEGE TO ANY AMERICAN WHO WANTS TO GO.

- **The \$1,500 HOPE tax cut will pay on average \$300 more than the full cost of tuition and fees at the nation's community colleges.**
- **\$10,000 Tax Deduction for All Education and Training.** \$10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs -- this encourages lifetime investment in higher education.
- **Pell Grant Scholarship Increases for Lower-Income Students:** President Clinton's balanced budget will increase Pell Grants each year. The maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002.

CLAIM ON AMERICA'S HOPE SCHOLARSHIPS WILL GIVE STATES AND SCHOOLS INCENTIVE TO RAISE TUITIONS

AIM: "The American Association of State Colleges and Universities said it is 'very likely over time' that some schools, or the state officials who regulate their prices, would raise tuition to that amount to capitalize on new federal money. [Washington Post, June 8, 1996]"

- THE FACTS:**
- 1. PRESIDENT CLINTON PUT FORTH A STRONG CHALLENGE TO THE NATION THAT WE SHOULD DO ALL WE CAN TO ADDRESS THE PROBLEM OF RISING COLLEGE TUITIONS.**
 - **The President's \$1,500 HOPE Scholarship Tax Cut will pay on average \$300 more than the full cost of tuition and fees at the nation's community colleges.**

 - 2. WITH THE AVERAGE COMMUNITY COLLEGE BEING "FREE," STATES WILL BE UNDER ENORMOUS PRESSURE TO KEEP TUITIONS DOWN.**
 - In 33 states where current average tuition is less than the \$1,500 tax credit, it is highly unlikely that state elected officials -- who would be held accountable to the people in their states -- would see it in their best interest to raise tuitions so as eliminate "free" 13th and 14th grades in their state.
 - In states where the average tuition is greater than the \$1,500 tax credit, the pressure will be on state officials to explain why community college in their states is not "free" as it will be most other states.

 - 3. BECAUSE NOT ALL STUDENTS WILL RECEIVE THE TAX CREDIT, STATE LEGISLATURES AND SCHOOLS WILL FACE PRESSURE TO KEEP TUITIONS DOWN.**
 - Students who register for individual courses and are not full-time or part-time enrollees would be disproportionately impacted by tuition increases. While the tax credit is targeted at the middle-class, that should not be an excuse for tuitions to be increased even greater on higher income Americans.

 - 4. STATES WOULD ALSO FACE PRESSURE TO KEEP THE COSTS OF PUBLIC FOUR-YEAR COLLEGES DOWN -- OR FACE LOSING STUDENTS TO COMPETING COLLEGES.**

 - 5. AS THE TAX CUT IS IMPLEMENTED, THE EDUCATION AND TREASURY DEPARTMENTS WILL WORK WITH MEMBERS OF CONGRESS, GOVERNORS, AND COLLEGE PRESIDENTS TO DISCOURAGE STATES AND INSTITUTIONS FROM RAISING THEIR TUITIONS SOLELY TO TRY TO TAKE ADVANTAGE OF THE NEW FEDERAL DOLLARS.**
 - ▶ This tax cut is meant to help students and families pay for college and we will work diligently with states to carry out the vision of the program: to make 2 years of college as universal as high school.

CLAIM ON AMERICA'S HOPE SCHOLARSHIPS WOULD CAUSE GRADE INFLATION

CLAIM:

"The fear, echoed by officials in other departments, is that community college teachers all over the country would feel responsible for students losing out on a college education if they don't give B grades or higher." [Source: *Washington Post*, 6/5/96]

THE FACTS:

1. STUDENTS MUST EARN A "B" DURING THEIR FIRST YEAR IN ORDER TO GET THE HOPE TAX CUT THEIR SECOND YEAR BECAUSE PRESIDENT CLINTON BELIEVES:

- (1) We should work to remove financial barriers and open the doors of college to all students who meet the academic requirements for enrollment. That is why President Clinton's \$1,500 tax credit is available for all first-year college students.
- (2) We should reward responsibility by extending the HOPE tax cut for a second year to students who make the grade. In order to receive the tax credit for their second year, students are required to have a "B" average their first year.

2. JUST AS STUDENTS WILL HAVE TO PROVE THEIR RESPONSIBILITY BY MAKING THE GRADE, PRESIDENT CLINTON CALLS ON ALL PROFESSORS AND TEACHERS TO ACT RESPONSIBLY AND MAKE SURE THAT THEIR STUDENTS EARN THEIR GRADES.

- ▶ President Clinton challenges all teachers and professors to continue to make sure their students earn their grades and not change their ways because of this tax cut.

3. SO FAR, IN GEORGIA, THERE IS LITTLE IF ANY EVIDENCE OF GRADE INFLATION.

- ▶ In fact, 57% of first year students did not maintain a B average in their freshman year and lost their scholarships.

CLAIM THAT EXPANDING PELL GRANTS WOULD BE SIMPLER AND MORE EFFECTIVE THAN PROVIDING A TAX CREDIT

CLAIM: *Wouldn't it be better to just expand the Pell Grant program than further complicate the tax code with another tax credit?*

THE FACTS:

- 1. THE \$1,500 TAX CREDIT IS BETTER SUITED TO MAKING 14 YEARS OF SCHOOL THE STANDARD FOR ALL AMERICANS.** Providing tuition assistance through the tax code is better suited than a spending program such as Pell Grant program:
 - Emphasizes that it is a guarantee for every American -- and not just those who seek it out. While about 20 million Americans enroll in a post-secondary education program each year, less than 10 million apply for federal financial aid. By contrast, over 100 million Americans already file an income tax return each year.
 - Every American that fills out a tax return will know that a \$1,500 tax credit and a \$10,000 deduction is available for college tuition.
 - Puts the promotion of higher education in line with the promotion of home ownership and charities that are given favorable treatment by the tax code.
 - Gives families the same incentives to invest in education that the tax code gives corporations to investment in plant and equipment. The President supports permanent extension of Section 127 to give corporations incentives to invest in education of their workers.

- 2. PELL GRANTS SERVE A DIFFERENT PURPOSE.** Rather than making a universal guarantee of a fixed amount of assistance, Pell Grants provide students with grants of varying amounts based on their resources and their expenses. Pell Grants provide needy students with up to \$2470 to cover not just tuition, but also room, board, books, transportation, and child care.
 - Expanding Pell Grants to make them universal would fundamentally change the program and would dilute its purpose of providing broader assistance to a targeted group of students.