RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Pauline_Abernathy (Pauline_Abernathy@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:29-JAN-1998 20:23:00.00

SUBJECT: College Opportunity for Everyone

TO: Charles R. Marr (Charles R. Marr@eop [UNKNOWN])
READ:UNKNOWN

TEXT:

Attached and below are an administration's higher ed

accomplishments

document for the final press packet on college-school partnerships.

Maureen's

staff put it together. Do you want to put it into the format you/Gene

want for

the press packet? I now also have drafts that I faxed to Bob on the need

for

the initiative and model programs -- I will review and revise. They are

also

putting together a page on evidence that it works! Progress.

COLLEGE OPPORTUNITY FOR EVERYONE

COLLEGE-SCHOOL PARTNERSHIPS - A new and promising approach

Despite recent increases in Federal student financial aid, the college

enrollment and graduation rates for high school graduates from low-income

families continue to lag behind those for high school graduates from middle- and

high income students. To address this problem, the President has proposed

the

creation of a new College-School Partnership program that will serve

approximately 175,000 students at about 1,550 high-poverty schools

beginning in

FY 1999. The Partnerships will provide an array of early intervention

services.

FEDERAL TRIO PROGRAMS - A proven and effective strategy

The Federal TRIO programs fund postsecondary education outreach and

student

support services that encourage individuals from disadvantaged backgrounds

to

enter and complete college. These services complement the Department's

student

financial aid programs by helping to ensure postsecondary education access

for

disadvantaged students and by providing them with the support they need to

successfully complete postsecondary programs. The program will also

complement

the proposed College-School Partnership program. Nearly 744,000 students

would

benefit from these programs under the 1999 request.

PELL GRANTS - Largest increases in 20 years

For the past two years, President Clinton has proposed, and Congress has adopted, record increases in the maximum Pell Grant award. In the coming school year, 1998-99, nearly 4 million low- and moderate-income students will receive a Pell Grant of up to $3,000. The FY 1999 Budget will increase the maximum to $3,100, that is nearly a 35% larger grant than when President Clinton came into office.

STUDENT LOANS - Cheaper, easier to get, new pay as you earn plan

More than 5 million students and parents will take out $34 billion in Federally-backed student loans this year. Under student loan reforms enacted in the Administration's first year, the up-front fees on those loans have been cut by as much as half, interest costs are lower, and students have more repayment options than ever before, including the pay-as-you-earn (income contingent) repayment plan. The program simplification pioneered by the Direct Loan Program has also spurred improvements to the government-guarantee system, improving all

students' access to loans. The Administration is proposing to reduce further
loan origination fees for all borrowers in 1999 and to eliminate completely
these fees as of July 1, 2003 for subsidized borrowers, thus increasing the loan
dollars available to meet college costs.

WORK-STUDY - Expanded to one million recipients

The Federal-Work Study program, originally created by President Johnson in 1964,
as part of the War on Poverty, provides undergraduate and graduate students with
part-time employment to help meet their financial needs and to give them work
experience while helping the campus or surrounding community. The FY 1999
Budget will increase work-study funding to $900 million, which is nearly a 50%
increase since FY 1996.

HOPE SCHOLARSHIP CREDIT - Took effect on January 1, 1998

The Hope Scholarship Credit Helps make the first two years of college (or
post-high school vocational training) universally available. Families are
eligible for tax credits of up to $1500 per-student for tuition in a student's

first year and another $1500 in the second year. The credit is available for college enrollment (and tuition paid) after January 1, 1998. 5.8 million students are estimated to benefit annually.

EDUCATION IRAs - Took effect on January 1, 1998

For each child under age 18, families may now deposit $500 per year into an Education IRA in the child's name. Interest on these accounts is exempt from taxation if used for higher education. In addition, taxpayers may now withdraw funds from a regular IRA, without penalty, for their own higher education expenses or those of their spouse, child, or grandchild.

LIFETIME LEARNING CREDIT - Will take effect July 1, 1998

This tax credit helps offset tuition costs for college juniors, seniors, graduate and professional degree students, as well as for adults who want to go back to school, change careers, or take a course or two to upgrade their skills.

A family will receive a 20% tax credit for the first $5,000 of tuition and required fees paid each year through 2002, and for the first $10,000 thereafter.

The credit is available for enrollment (and tuition paid) after July 1,

1998.

7.1 million students are expected to benefit annually.

AMERICORPS - Paying for college by doing community service

This year, nearly 50,000 young people will take advantage of the

opportunity to

perform community service, either on a full-time or part-time basis,

allowing

them to earn an award to pay for college or repay student loans.

Participants

in the AmeriCorps program earn education awards of up to $4,725 for each

term of

service. The FY 1999 Budget will provide the opportunity for an additional

6,000

-- for a total of 56,000 -- young people to perform community service.

=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
RFC-822-headers:
Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01ISYLAA49A8009WEH@PMDF.EOP.GOV> for marr_c@a1.eop.gov; Thu,
29 Jan 1998 19:33:18 -0500 (EST)
Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISYLA64DVK017TWB@PMDF.EOP.GOV> for
marr_c@a1.eop.gov; Thu, 29 Jan 1998 19:33:14 -0500 (EST)
Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01ISYL9J9BZK000IVP@STORM.EOP.GOV> for marr_c@a1.eop.gov; Thu,
29 Jan 1998 19:32:42 -0500 (EST)
Received: from smtpgwy1.ed.gov (smtpgwy1.ed.gov [165.224.216.37])
by vader.ed.gov (8.8.7/8.8.4) with SMTP id TAA25751; Thu,
29 Jan 1998 19:28:54 -0500 (EST)
Received: from ccMail by smtpgwy1.ed.gov

(IMA Internet Exchange 2.12 Enterprise) id 000DEA01; Thu,
29 Jan 1998 19:32:41 -0500
================== END ATTACHMENT 1 ==================

==================== ATTACHMENT 2 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D42]ARMSZZ000FT72.001 to ASCII,
The following is a HEX DUMP:

================== END ATTACHMENT 2 ==================

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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Elizabeth R. Newman (Elizabeth R. Newman@EOP@LNGTWY@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 2-FEB-1998 10:30:00.00

SUBJECT: President Clinton Proposes First Balanced Budget in 30 Years

TO: Michael J. Sullivan (Michael J. Sullivan@EOP [UNKNOWN])
READ:UNKNOWN

TO: Steven J. Naplan (Steven J. Naplan@eop [UNKNOWN])
READ:UNKNOWN

TO: Steven J. Ronnel (Steven J. Ronnel@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:
Message Creation Date was at 2-FEB-1998 10:30:00

FOR RELEASE: CONTACT:

Monday, February 2, 1998, 8 a.m. Lawrence J. Haas

(202) 395-7254

PRESIDENT CLINTON PROPOSES FIRST BALANCED BUDGET IN 30 YEARS

Invests in Education, Child Care, Health, Research, Other Priorities;

Reserves Budget Surplus to !&Save Social Security First!8

Speaking from the East Room of the White House, President Clinton today

proposed a balanced Federal budget for 1999, marking the first balanced

budget

in 30 years and bringing an era of exploding deficits to an end.

By reaching balance, the President!,s budget represents a remarkable turnaround in the Nation!,s fiscal policy over the last five years. It brings
to an end three decades of fiscal chaos, a period in which Americans had lost
confidence in their Government and the ability of their leaders to do the people!,s business.

!&We are not only balancing the budget for the first time in a generation, we
are reaching balance three years ahead of the schedule we announced last summer
with the Balanced Budget Act,!8 the President said. !&If we maintain our fiscal discipline, we may very well reach balance this year -- four years ahead
of schedule.!8

The President!,s $1.7 trillion budget for 1999 is not just balanced, it is
balanced the right way. It not only ends the deficit, it reflects the values
that Americans hold dear -- the values of opportunity, responsibility, and community. The budget reflects the President!,s commitment to continue helping
working families with their basic needs -- to raise their children, send them

to college, and pay for health care.

The budget invests in education and training and in research to raise the standard of living for average Americans. It invests in the environment and in
law enforcement to raise the quality of life across the Nation. It invests in
communities at home while providing the resources to maintain a strong defense
and conduct the international relations that have become so important to the
Nation!,s future.

Reflecting the President!,s call to !&save Social Security first,!8 the budget
proposes a reserve for the projected budget surpluses for 1999 and beyond, pending a solution to the long-term financing challenge facing Social Security.

Within tight constraints, the President proposes major initiatives to build on
his investments in high-priority areas -- from helping working families with
child care to allowing Americans from 55 to 65 to buy into Medicare; from helping States and school districts reduce class size by recruiting and preparing 100,000 more teachers and building more classrooms to addressing global warming. The budget pays for every initiative dollar by dollar.

Challenging times demand innovative solutions, and this budget meets the challenge by proposing three new investment funds for America -- for research, the environment, and transportation -- that will focus attention on these critical priorities. Together, the funds provide $75.5 billion, a $4.7 billion increase over the 1998 level for the programs they contain. Because the funds rely on budget offsets to help finance the spending, they, in effect, apply pay-as-you-go principles to discretionary spending.

The funds are:

The Research Fund for America, which includes a broad range of investments in knowledge, including programs of the National Institutes of Health, the Centers for Disease Control and Prevention, the National Science Foundation, the National Aeronautics and Space Administration, the Energy Department, the Commerce Department!,s National Institute of Standards and Technology, Agriculture Department research programs, the multi-agency Climate Change Technology Initiative, and other programs. The budget finances this Fund, in part, through receipts from tobacco legislation and savings in mandatory programs.

The Environmental Resources Fund for America, which encompasses the multi-agency Clean Water Initiative; the new Land, Water, and Facility Restoration Initiative of the Interior and Agriculture Departments; the Agriculture Department!,s water and wastewater program for rural communities;
and the Environmental Protection Agency!,s programs for cleaning up hazardous
waste sites (within the Superfund) and upgrading clean water and safe drinking
water infrastructure. The budget finances the Fund, in part, through an extension of Federal taxes that support the Superfund.

The Transportation Fund for America, which includes the Transportation Department!,s highway, highway safety, and transit programs; the Flight 2000
free flight demonstration program; and the Federal Aviation Administration!,s
programs, including Airport Grants. The budget finances the Fund, in part,
through a new Federal aviation user fee.

The budget continues the President!,s efforts to reduce the size and scope of
Government. This budget is the smallest Federal budget, as a share of the economy, in 25 years. To date, the Administration has cut the civilian Federal

workforce by over 316,000 employees, giving us the smallest workforce in

35

years and, as a share of total civilian employment, the smallest since

1931.

But the Administration set out to do more than cut Government. Under the

leadership of the Vice President!,s National Performance Review, it sought

to

make Government work, to create a Government that is more efficient and

effective, to create a Government focused on its customers, the American

people. The Administration has reinvented parts of departments and

agencies.

Now, it proposes to turn agencies around from top to bottom. For 1999,

the

Vice President will lead an effort to improve the performance of agencies

that

interact most with the American people.

Under the 1993 Government Performance and Results Act, Cabinet

departments and

agencies have prepared individual performance plans that they will send to

Congress with the performance goals they plan to meet in 1999. These

plans, in

turn, form the basis for the first Government-wide performance plan, which

the

Administration is sending Congress along with this budget.

Investing in Education and Training: Nothing is more important to

America!,s

future than education. It has become the dividing line between those who

are

moving ahead and those who are lagging behind. That is why the President

has

devoted so much effort to ensure that we have a world-class system of

education

and training in place for Americans of all ages. Over the last five

years, the

President has worked hard to ensure that every boy and girl is prepared to

learn, that schools focus on high standards and achievement, that anyone

who wa

nts to go to college can get the financial help to attend, and that those

who

need a second chance at education and training or a chance to improve or

learn

skills can do so.

The budget significantly increases funds to help children, especially in

the

poorest communities, reach challenging academic standards and makes

further

progress in implementing voluntary national tests. It proposes to pay for

100,000 more teachers and build more classrooms in order to reduce class

size.

For higher education and training, the budget increases Pell Grants and

other

college scholarships from the record levels already achieved; expands College
Work-Study to a record one million students; streamlines student loan programs
and cuts student fees; and expands access to job placement services, training,
and related services for dislocated workers and others. Now that anyone who
wants to attend college can find the means through Hope scholarships, Pell Grants, and other assistance that the Administration has worked so hard to enact, the President wants to provide the same universal opportunity for job
training and re-training to those who need it.

Supporting Working Families: Over the last five years, the President has worked hard to help working families. Working with Congress, the Administration has cut taxes for 15 million working families, provided a tax
credit to help families raise their children, ensured that 25 million Americans
a year can change jobs without losing their health insurance, made it easier
for the self-employed and those with pre-existing conditions to get health insurance, provided health care coverage for up to five million uninsured children, raised the minimum wage, and provided guaranteed time off for workers
who need to care for a newborn or address the health needs of a family

member.

Now, with his new Child Care Initiative, the President is determined to provide the help that families need when it comes to finding safe, high-quality, affordable child care. Parents should know that, when they go to work, their children are in safe, healthy environments. The President also proposes to address the problems faced by a particular group of working families -- legal immigrants. In signing the 1996 welfare reform law, the President said that he would try to restore the cuts in benefits for legal immigrants that were not only harsh and unnecessary but that had nothing to do with the fundamental goal of welfare reform -- to move people from welfare to work while protecting children. The budget restores Food Stamps to 730,000 legal immigrants and let States provide health insurance to the children of legal immigrants.

Strengthening Health Care: This past year, the President improved the health care of millions of Americans. Working with Congress, the Administration strengthened Medicare by extending the life of the trust fund until at

least
2010 while investing in preventive benefits, introducing more choice of
health
plans, and strengthening the expanding array of activities to combat fraud
and
abuse. In addition, the Administration extended health care coverage to
up to
five million uninsured children, created the Advisory Commission on
Consumer
Protection and Quality in the Health Care Industry, and later endorsed the
Commission!,s Health Care Consumer Bill of Rights.

With this budget, the President proposes to build on these achievements
on a
host of important fronts. The President wants to work with Congress to
enact
national bipartisan tobacco legislation; nothing is more potentially
important
to the health of our people, particularly children. The budget also
proposes
to expand health care coverage for some of the most vulnerable Americans
aged
55 to 65, to enroll more eligible children in Medicaid, to provide for
unprecedented levels of investment in health research, to expand access to
powerful AIDS therapies, to expand access to cancer clinical trials, to
increase funds for substance abuse treatment and prevention, and to help
reduce

health-related disparities across racial and ethnic groups.

Protecting the Environment: Last year was a remarkable one for the environment, and the President is determined to build on the progress. Led by the Vice President, the Administration reached an historic international agreement in Kyoto that calls for cuts in greenhouse gas emissions. The Administration also issued new, more protective air quality standards to better safeguard public health; strengthened our citizens!, right to know about toxic chemical releases; continued to protect our natural treasures, such as Yellowstone National Park and Florida!,s Everglades; and made further progress toward the President!,s goal of cleaning up 900 hazardous waste sites under the Superfund by the end of the year 2001.

The budget proposes an Environmental Resources Fund for America that will support increases for many key environmental programs. It provides for more construction, maintenance, and land acquisition for national parks, forests, refuges, and other public lands; for a new effort to improve the quality of our water; for improvements to community drinking water and wastewater facilities;

and for continuing the Administration!,s efforts to clean up abandoned hazardous waste sites. The budget includes a five-year $6 billion program to prevent global warming, and more resources to protect endangered species, control pollution, and preserve the global environment.

Investing in Infrastructure: The President proposes a Transportation Fund for America, reflecting his commitment to provide the resources to ensure that our transportation infrastructure remains safe, integrated, and efficient enough to serve our growing needs. Investment in infrastructure is good for America because it helps grow the economy, improve safety and public health, strengthen our competitiveness abroad, support our national security, and increase the mobility, access, and choice for Americans who need to travel.

The President believes that we must build upon our vast network of roads, highways, and bridges to meet the demands of the next century for a system that links our various modes of travel, that is cleaner and safer, and that helps bring together and support our urban and rural communities. The budget maintains the Administration!,s record support for transportation, and the Fund includes all of the Transportation Department!,s highway, highway safety, transit, and air transportation programs.

Promoting Research: Scientific and technological advances have created a world vastly different from the one our grandparents knew. They have helped
generate huge leaps in the speed and economy of transportation, enormous increases in farm productivity, lightning-fast flows of information and services across national borders, and advances in treating and preventing diseases and protecting the environment.

Because the President is committed to America!,s continued leadership in science and technology, the budget proposes a Research Fund for America, from
which many important Federal investments will flow. It includes record increases for the National Institutes of Health, higher funding for the National Science Foundation, new resources to address global climate change,
and a wide variety of investments in basic and applied research. These investments are vital; they help the Nation to create new knowledge, train more
workers, spur new jobs and industries, address our health care challenges, strengthen our understanding of environmental problems, better educate our children, and maintain a strong national defense.

Enforcing the Law: The President!,s anti-crime strategy is working. Serious
crime is down five years in a row and, in 1996, the Nation witnessed the

largest drop in violent crime in 35 years. But, because crime remains unacceptably high, the President believes that we must go further.

The budget expands the Administration !,s community policing (COPS) program,
which is already putting 83,000 more police on the streets toward the President !,s goal of 100,000 by the year 2000. The budget also proposes a new
Community Prosecutors Initiative to help prosecutors prevent crimes from occurring, rather than simply prosecuting criminals after the fact. And it
provides the necessary funds to prevent violence against women, to help States
and Indian Tribes build prisons, and to address the growing law enforcement
crisis on Indian lands. To boost the Administration !,s efforts to control illegal immigration, the budget provides the resources to strengthen border
enforcement in the South and West, to remove illegal aliens, and to expand efforts to verify whether newly hired non-citizens are eligible for jobs. To
combat drug use, particularly among young people, the budget expands programs
that stress treatment and prevention, law enforcement, international assistance, and interdiction. It builds on the Administration !,s innovative
Drug Courts initiative, proposes School Drug Prevention Coordinators for

schools, supports local efforts that target drug-using offenders, expands
drug
testing, and strengthens the Administration !,s efforts to make ports and
borders more secure from drugs while disrupting drug trafficking
organizations
overseas.

Strengthening the American Community: Most Americans are enjoying the
fruits
of our strong economy. But while many urban and rural areas are doing
better,
too many others have grown disconnected from our values of opportunity,
responsibility, and community. Working with State and local governments
and
the private sector, the President is determined to help bring distressed
areas
back to life, to replace despair with hope.

The budget expands the President !,s national service program, giving more
Americans the chance to serve their country and help solve problems at the
local level while earning money for college. The budget proposes to
create
more Empowerment Zones and Enterprise Communities that offer tax
incentives and
direct spending to encourage the kind of private investment that creates
jobs,
and to provide more capital for lending through the President !,s Community

Development Financial Institutions program. The budget also expands opportunities for homeownership, provides more funds to enforce the Nation !,s civil rights laws, maintains the Administration !,s Government-to-Government commitment to Native Americans, and strengthens the partnership that the President has begun with the District of Columbia.

Advancing United States Leadership in the World: Because America continues to have a tremendous stake in world affairs, the budget proposes the necessary funds to maintain national security, to conduct our diplomacy, to promote democracy and free markets abroad, and to increase exports. Last year, the A dministration worked with Congress to increase international affairs spending. But, Congress faces an unfinished agenda to provide financial support for, and fulfill America !,s obligations to, a number of international organizations that benefit our economy and serve other objectives, including the International Monetary Fund (IMF), the United Nations system, and the multilateral development banks.

Congress should continue to support the decisive action of the IMF as well as

our leadership in that institution by providing the supplementary

contingent

IMF funding that the Administration has sought and replenishing the IMF !,s

basic financial resources. Congress also should give the President

traditional

trade negotiating authority to help fuel our surging exports into the next

century. To enhance national security, the budget maintains large-scale

funding to support the Middle East peace process, continues assistance to

Bosnia to carry out the Dayton Accords, supports NATO expansion, and

increases

aid to the New Independent States of the former Soviet Union to support

the

development of democracy and free markets. The budget also proposes a

major ini

tiative to provide critical, targeted assistance to African countries that

are

undertaking difficult economic reforms, increases counter-narcotics aid to

Latin American countries, and supports the Summit of the Americas.

Supporting the World !,s Strongest Military Force: Our military serves as

the

backbone of our national security strategy, and the President is committed

to

maintain a strong and capable military that protects our freedoms and our global leadership role as we approach the 21st Century.

The budget continues the Administration !,s plan to complete the careful resizing of our military forces, to fully support military readiness, to strengthen quality of life programs for our armed forces, and to provide increased funding to modernize our forces as new technologies become available
after the turn of the century. The budget reflects the recommendations of the
Quadrennial Defense Review and of the Defense Department !,s recent Defense Reform Initiative to achieve a leaner, more efficient, and more cost-effective
organization by improving management and business practices. To implement these improvements, the Defense Department will send legislation to Congreunction with this budget, including a request for two more rounds of base
closures and realignments.

PRESIDENT CLINTON !,S FY 1999 BALANCED BUDGET

THE FIRST BALANCED BUDGET IN 30 YEARS

Summary Document: February 2, 1998

THE FIRST BALANCED BUDGET IN THREE DECADES. The President !,s FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. In only the second year of the historic balanced budget agreement

that

included $900 billion in net 10-year deficit savings and nearly half a

trillion

dollars in entitlement savings over 10 years, the President !,s plan

reaches

balance three years earlier. And it does so by paying for every

initiative

dollar by dollar consistent with the 1997 Balanced Budget Agreement.

MAINTAINING OUR FISCAL DISCIPLINE AND INVESTING IN OUR PEOPLE. This

budget

builds on the President !,s record of fiscal discipline. In 1992, the

deficit

was $290 billion, job growth was weak, and the unemployment rate was 7.5

percent. The President !,s 1993 Economic Plan helped cut the deficit 92

percent,

from $290 billion in 1992 to $23 billion in 1997 -- its lowest level since

1974. This year, our deficit is projected to be $10 billion, and heading

lower.

The economy has produced over 14 million new jobs; and the unemployment

rate is

as low as it has been in 24 years.

This budget implements the historic balanced budget agreement reached

last

year with Congress. This is the second year of the budget agreement which included $900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years.

In a historic shift, this budget delivers surpluses over the next ten years of $1.1 trillion in surpluses -- reserved pending Social Security Reform.

Everything is paid for dollar by dollar consistent with the 1997 Balanced Budget Agreement and President Clinton !,s successful record of fiscal discipline.

SOCIAL SECURITY FIRST

Over the next two years, President Clinton is firmly committed to strengthening Social Security for the 21st century. He therefore proposes that we should not spend any of the projected budget surpluses on anything else until we have reformed Social Security. This proposal, which continues the fiscally responsible policies that have been the hallmark of this Administration, is intended to reserve the surpluses in case they are needed for Social Security reform.

INVESTING IN THE FUTURE. The President !,s budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes important new initiatives, which are all paid for, to help prepare America for the 21st century.

Education/Training/Child Care:

Class Size. Aims to Reduce class size to 18 in grades 1-3 by funding 100,000 new teachers by 2005.

Head Start. Increases Head Start funding by $305 million for FY99; Head Start has increased 68%, from $2.8 billion in FY93 to $4.7 billion in FY99. In addition, the number of slots in Early Head Start is doubled over the next 5 years.

After-School Programs. To provide after-school care for 500,000 children per year, the budget includes an $800 million five-year investment to expand the 21st Century Community Learning Center program.

$7.5 Billion Child Care Block Grant Over 5 Years. Doubles the number of low-income families who receive child care subsidies to more than 2 million by the year 2003.

Child Care and Early Learning. Establishes an Early Learning Fund with $3 billion over five years to provide grants to communities to promote early childhood development and improve child care quality for young children.

Education Opportunity Zones. $1.5 billion over five years for competitive grants to about 50 urban and rural districts who adopt a school reform agenda to increase student learning and implement accountability measures.

Dislocated Workers. Increases funding in FY99 by $100 million to $1.5 billion -- nearly tripling the funding since FY93. Provides services to nearly 700,000 dislocated workers.

Health Care:

Consumer Bill of Rights. Protects patients by guaranteeing access to needed health care specialists, access to emergency room services, an assurance that medical records are confidential, and access to a meaningful appeals process for to resolve differences with health plans and health care providers.

Biomedical Research. Provides unprecedented increases of more than $1.1 billion of biomedical research with an emphasis on cancer research

Ryan White AIDS program. Invests $165 million more in the to find ways to prevent and treat diseases -- increasing funding 241% since FY 1993.

Expanding Medicare Coverage. Provides new options for Americans ages 55 to 65

to obtain health insurance by buying into Medicare through a premium that

ensures that this policy is self-financed.

Environment:

Initiative To Cut Greenhouse Gas Emissions. A dramatic new $6.3 program

of

tax cuts and R&D aimed at cutting greenhouse gas emissions. Package

contains

$3.6 billion in tax cuts for energy efficient purchases and renewable

energy,

and $2.7 billion in additional R&D spending.

Clean Water Initiative. Targets the 40% of the nation !,s waterways

still

unsafe for fishing and swimming by assisting states and communities in

implementing programs and incentives to adopt practices that protect water

quality.

Community Empowerment:

Welfare-to-Work Housing Vouchers. Includes $283 million for 50,000 new

vouchers for people who need housing assistance to make transition from

welfare

to employment.

Flexible Funding for Second-Round Empowerment Zones. Provides $150

million

over ten years in mandatory funding for second-round urban and rural

EZs.

Funds could be used for economic development and housing projects, project-based rental assistance, job training and other social services.

CDFI Expansion. The Administration is requesting a $45 million increase in CDFI funding (from $80 million to $125 million). The increased funding also would be used in part to accelerate development of a secondary market for CDFI loans.

Community Empowerment Fund. $400 million community empowerment fund that will help local governments attract more businesses and jobs to poor and underserved neighborhoods by encouraging the standardization of economic development lending, a first step in creating a secondary market for such loans. It will provide capital to businesses who recognize the potential and the possibilities of the inner cities.

Drugs

COPS. Funds 17,000 more police, helping to move towards the President !,s goal of 100,000 new police by the year 2000.

$1 Billion Increase in Anti-Drug Budget. Budget proposes to increase funding to $16.9 billion in FY99 consisting of increases in drug treatment, prevention, domestic law enforcement, interdiction, and international programs.

Community Prosecutors. Budget provides grants of $100 million for hundreds of

communities to hire as many as 1,000 new prosecutors.

Juvenile Crime Strategy. Calls on Congress to pass a $245 billion comprehensive anti-gang and youth violence strategy including preventing under

21s from buying guns, new prosecutors and probation officers, tough, new sentences on drug dealers, funding to keep schools open later and promote anti-truancy initiatives and curfews.

TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES:

The President !,s budget provides about $24.6 billion of tax cuts over five years to:

Making Child Care More Affordable. (1) The Child and Dependent Care Tax Credit

would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about

35,000 for a family of four) who have maximum allowable child care expenses.

(2) A 25% tax credit for building, operating or contracting costs is also created to encourage businesses to provide child care for their employees.

Climate Change Initiative -- Increasing Energy Efficiency and Improving the

Environment: (1) Tax credits of $3,000 to $4,000 for fuel efficient cars;

(2)

tax credits of up to $2000 for rooftop solar systems and new energy

efficient

homes; (3) a five-year extension of the tax credit for electricity

produced by

wind and biomass.

Promoting Expanded Retirement Savings: (1) A three-year tax credit of up

to

$2,000 for small businesses that establish pension plans; (2) a new,

simplified

defined benefit plan for small businesses and (3) and enhancing workers !,

ability to make contributions to IRAs by payroll deduction.

Expanding Education Incentives: (1) School Construction -- federal tax

credits to pay interest on nearly $22 billion in bonds to build and

modernize

over 5,000 public schools; (2) Employer-Provided Educational Assistance --

Extends and expands this tax exclusion.

Expanding and Improving the Supply of Available Low-Income Housing.

Calls for

increasing the per capita cap on the credit 40% which will mean 150,000 to

180,000 additional rental housing units in the next five years.

PRESIDENT CLINTON !,S RECORD

ON DEFICIT REDUCTION

CUT THE DEFICIT BY 92 PERCENT. President Clinton has reduced the budget deficit by 92 percent -- from $290 billion in FY 1992 to $22 billion in FY 1997. This year the budget deficit is projected to be $10 billion and heading lower. [Based on data from OMB, FY 1999 Budget, February 1998.]

LOWEST DEFICIT SINCE 1970 AND FIRST PROPOSED BALANCED BUDGET SINCE 1969. The deficit has fallen from 4.7 percent of GDP in FY 1992 to 0.3 percent in FY 1997 -- the lowest for any year since 1970. [Based on data from OMB, FY 1999 Budget, February 1998.]

LOWEST DEFICIT OF ANY MAJOR ECONOMY EXCEPT FOR CANADA. The total U.S. deficit in 1997 as a percentage of the economy was lower than for any other major country except for Canada. [OECD, Economic Outlook, December 1997.]

MAKING GOVERNMENT MORE EFFICIENT. Federal employment has fallen by 318,000 from its 1993 base and is at its lowest level in three decades. [Based on data from OMB, FY 1999 Budget, February 1998.]

AS A RESULT OF PRESIDENT CLINTON !,S EFFORTS TO REDUCE THE DEFICIT, ECONOMIC

PERFORMANCE HAS IMPROVED DRAMATICALLY:

LOWER INTEREST RATES LEADING TO INVESTMENT BOOM. President Clinton !,s 1993 Economic Plan cut the deficit and helped cut long-term interest rates and strengthen the economy. Under President Clinton, the 30-year interest rate has averaged 6.9 percent -- down from 8.2 percent under President Bush and 10.3 percent under President Reagan. And with lower interest rates, businesses have invested in the future: business investment has grown by 11 percent per year under President Clinton -- faster than any Administration since John F. Kennedy was President. [Based on data from the Bureau of Economic Analysis, Department of Commerce.]

EMPLOYMENT BOOM. Since January 1993, the economy has added more than 14 million new jobs -- including nearly 2 million new jobs in manufacturing and construction combined. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

THE LOWEST COMBINED RATE OF UNEMPLOYMENT AND INFLATION SINCE 1967. In 1997, the combined rate of unemployment and inflation will the lowest in 30

years.

And under President Clinton the combined rate of unemployment and

inflation has

been the lowest since Lyndon Johnson was President. [Based on data from

the

Bureau of Labor Statistics, Department of Labor.]

EXPERTS AGREE THAT ECONOMIC PERFORMANCE HAS BEEN REMARKABLE:

Business Week: !&Clinton !,s 1993 budget cuts, which reduced projected red

ink

by more than $400 billion over five years, sparked a major drop in

interest

rates that helped boost investment in all the equipment and systems that

brought forth the New Age economy of technological innovation and rising

productivity. !8 [5/19/97]

Alan Greenspan, Federal Reserve Chairman, 2/20/96: The deficit reduction

in

the President !,s 1993 Economic Plan was !&an unquestioned factor in

contributing to the improvement in economic activity that occurred

thereafter. !8

THE FACTS ON GOVERNMENT SPENDING

UNDER PRESIDENT CLINTON

SPENDING IS LOWER TODAY THAN UNDER REAGAN OR BUSH:

FEDERAL SPENDING WAS LOWER IN 1997 -- AND IS EXPECTED TO REMAIN LOWER IN

1998

-- THAN IN ANY YEAR SINCE 1974. Federal outlays as a share of GDP in 1997

were

20.1 percent -- lower than in any year since 1974. And current

projections

suggest a slight decrease in outlays as a percent of GDP during 1998.

Outlays

as a share of GDP under President Clinton have been a smaller share of GDP

than

under Reagan or Bush. [Based on data from OMB, FY 1999 Budget, February

1998.]

SPENDING GROWTH LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH

Federal outlays

(% of GDP) Real growth in Federal outlays

(percent per year)

CLINTON 20.1

[1997] 0.5

BUSH 22.5

[1992] 2.6

REAGAN 22.5

[1988] 2.6

[Based on data from OMB, FY 1999 Budget, February 1998.]

SINCE PASSAGE OF PRESIDENT CLINTON !,S 1993 DEFICIT REDUCTION PACKAGE,

EXPECTED

GOVERNMENT SPENDING BETWEEN 1993 AND 2002 HAS FALLEN BY MORE THAN $1.8

TRILLION

. Compared to the spending path President Clinton inherited in 1993,

total

spending in 2002 is now projected to fall by 19 percent. [Based on data

from

OMB, FY 1999 Budget, February 1998.]

GROWTH IN TOTAL FEDERAL SPENDING HAS BEEN LOWER UNDER CLINTON THAN UNDER

REAGAN OR BUSH. Real Federal outlays have grown by 0.5 percent per year

under

President Clinton -- lower than under President Bush (2.6 percent per

year) or

President Reagan (2.6 percent per year). [Based on data from OMB, FY 1999

Budget

, February 1998.]

WHILE MAINTAINING CRUCIAL INVESTMENTS IN PEOPLE, REAL DISCRETIONARY

SPENDING

HAS FALLEN UNDER PRESIDENT CLINTON -- A BETTER RECORD THAN UNDER REAGAN OR

BUSH.

Real discretionary outlays have fallen two percent per year under President Clinton -- under President Bush or Reagan real discretionary outlays increased one percent a year. [Based on data from OMB, FY 1998 Budget, February 1997.]

NON-DEFENSE DISCRETIONARY SPENDING IS NOW A SMALLER SHARE OF THE ECONOMY THAN IN 11 OF THE 12 YEARS UNDER REAGAN OR BUSH. Non-defense discretionary outlays are now lower than in 11 of the 12 Reagan-Bush years. Non-defense discretionary outlays are expected to equal 3.4 percent of GDP in 1998. During all the Reagan-Bush years, this ratio dropped this low only once in 1989. [Based on data from OMB, FY 1999 Budget, February 1998.]

SOCIAL SECURITY

THE SOCIAL SECURITY SYSTEM. Since its inception in 1935, the Social Security system has proven to be an outstanding success in providing security for the retired and disabled, as well as their families. The elderly poverty rate has

fallen from more than 35 percent in 1959 to just 10.8 percent in 1996. It currently provides benefits to about 45 million Americans, and keeps roughly 15 million of them out of poverty. And Social Security benefits represent more than 75 percent of income for elderly households in the bottom 40 percent of the income distribution.

THE LONG-RUN CHALLENGE. The Social Security system, however, is expected to face increasing strains, because the retirement of the baby boomers means that the number of retirees is expected to grow much faster than the number of workers. There are currently just over 3 workers who contribute for every Social Security beneficiary. By 2030, it is expected that there will be only 2 workers for every Social Security beneficiary. According to the intermediate projection of the Social Security Trustees Report, the retirement of the baby boomers is expected to cause the Social Security Trust Fund to start falling by 2019, and to be depleted by 2029 -- after which the Social Security system would be able to finance only 75 percent of current law benefits.

PRESIDENT CLINTON !,S APPROACH TO SOCIAL SECURITY REFORM. President Clinton is strongly committed to strengthening Social Security over the next two years.

His plan includes:

(1) Putting Our Fiscal House in Order. Before we could begin to address the long-run problems in Social Security, we first had to put our fiscal house in order. Under President Clinton !,s leadership, we have now done that. The budget deficit has fallen from $290 billion in 1992 to $22 billion last year, and President Clinton !,s FY 1999 budget will produce balance by next year.

(2) Surpluses Reserved Pending Social Security Reform. As the President emphasized in his State of the Union address, the projected budget surpluses should be reserved pending Social Security reform. Until we address the critical challenge of strengthening the Social Security system and ensuring retirement and disability security for America !,s hard-working families, the Administration believes that we should not use the projected surpluses for anything else.

(3) Bipartisan Regional Conferences in 1998. The President believes

1998

should be used to engage Americans in an inclusive national debate about Social Security reform. He challenges every American to attend a conference or forum on the issue -- or to organize and host one if there aren !,t any planned in a given area. The President has asked the AARP and the Concord Coalition to convene bipartisan and balanced regional conferences. The President or Vice President will attend three to four of these conferences, and will also be hosting a conference on private retirement savings in July. The President and Vice President also encourage other groups to organize conferences. The national dialogue should allow all Americans to express their views, and hear the views of others.

(4) White House Conference. At the end of the year, the President will host a bipartisan White House Conference on Social Security as a culmination of the various conferences, forums, and discussions held throughout the year. The purpose of the White House conference is to bring together the lessons learned from the national dialogue.

(5) Bipartisan Negotiations in January 1999. Following the White House conference at the end of the year, the President and his team will begin negotiations in January 1999 with the bipartisan Congressional leadership over Social Security reform. The President is firmly committed to strengthening the Social Security system.

PRESIDENT CLINTON !,S FY 1999 BALANCED BUDGET

TAX RELIEF FOR WORKING FAMILIES

A RECORD OF TAX RELIEF FOR WORKING FAMILIES. Beginning with the tax cut for 15 million working families in 1993, President Clinton has delivered tax relief to make it easier for working families to raise their children and send them to college. The new $500 Child Tax Credit the President pushed for and signed into law last year will help 27 million working families. The President !, s $1,500 HOPE Scholarship advances his goal of making access to two years of college universal. His Lifetime Learning Tax Credit will help 7.1 million college juniors and seniors, graduate students and working Americans

upgrade
their skills and education. Because of this strong record, the typical working
family of four making the median income now faces the lightest federal tax burden in decades:

Consider a middle income family of four making about $53,720 this year. When
President Clinton took office, this family paid 16.8 cents on each dollar of
income to the federal government to cover income and payroll taxes. Since then, this tax burden has fallen, so that this year, the typical middle-income
family will pay 15.5 cents on each dollar of income to the federal government
-- the lowest federal tax rate in 20 years . And this burden will fall even
further next year, as it reaches 15.1 percent.

The budget takes the next step and provides $24.6 billion over five years and
$56 billion over ten years in tax relief to:

MAKING CHILD CARE MORE AFFORDABLE.

The Child and Dependent Care Tax Credit would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about $35,000 for a family of four) who have maximum allowable child care expenses. These families will receive an average annual tax cut of $330 at a cost of $5.2 billion over five years.

New Business Tax Credits. The budget also invests one-half billion dollars over five years in a 25 percent tax credit (up to $150,000) for annual building, acquisition, operational or contracting costs to encourage businesses to provide child care for their employees.

INCREASING ENERGY EFFICIENCY AND IMPROVE THE ENVIRONMENT. The budget contains $3.6 billion over the next 5 years in tax cuts for energy efficient purchases and renewable energy:

Tax Credits For Fuel Efficient Cars. The tax package includes tax credits of $3,000 and $4,000 for consumers who purchase advanced-technology, highly fuel efficient vehicles -- expected to total $660 million over the next five years.

Tax Credits For Rooftop Solar Systems. Another tax provision provides a 15

percent credit (up to $2,000) for purchases of rooftop solar equipment -- to

provide incentives for meeting the Million Solar Roofs goal.

Other Tax Credits For Energy Efficiency. The tax cuts also include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a credit of up to $2,000 for purchasing energy-efficient new homes,

an extension of the wind and biomass tax credit, and a 10 percent investment

credit for the purchase of combined heat and power systems.

PROMOTING EXPANDED RETIREMENT SAVINGS.

Payroll Deduction IRAs. Contributions of up to $2,000 made to an IRA through a

payroll deduction would be excluded from the employee !,s income for tax purposes.

Tax Credit for Small Businesses. To encourage and help small businesses establish pension plans for their employees, the budget also includes a three

year tax credit. For the first year of the plan, the credit would be 50 percent of up to $2,000 in administrative and retirement education expenses associated with a new defined benefit plan (including the new SMART plan described below), 401(k), SIMPLE or other pension plan or payroll deduction IRA arrangement. For each of the second and third years, the credit would be 50 percent of up to $1,000 in such costs. The payroll deduction IRA and the tax credit cost $508 million over five years and $945 million over ten years.

A New Simplified Defined Benefit Plan for Small Businesses. The budget also includes a new simplified defined benefit plan for small businesses. This new pension choice, the SMART plan, is designed to be easy to administer and to provide a guaranteed pension benefit to all eligible employees. The proposal costs $304 million over five years and $555 million over ten years.

EXPANDING EDUCATION INCENTIVES.

School Construction. To spur construction and rehabilitation of our public schools, the President proposes Federal tax credits to pay interest on nearly

$22 billion in bonds at a cost of $5 billion over five years and $11.6 billion over ten years. Two types of bonds would be authorized: 1) School Modernization Bonds - special 15 year bonds with half targeted to the 100 school districts with the largest number of low-income children and the other half allocated to states; 2) Qualified Zone Academy Bonds -- bonds enacted last year, that encourage public school-business partnerships in high poverty areas, would be expanded.

Employer Provided Education Assistance. The budget also extends and expands the tax exclusion for employer-provided educational assistance. The current exclusion for assistance with undergraduate education is extended for one year to cover courses that begin before June 1, 2001. The tax exclusion is also expanded to assistance with graduate education. This proposal costs $1 billion over both five and ten years.

INCREASING THE LOW INCOME HOUSING TAX CREDIT. To expand and improve the supply of available low income housing, the budget raises the allocation of tax credits to states. Currently, the amount of credits a state can award annually is limited to $1.25 per capita. The President proposes to raise that limit to $1.75 per capita beginning in 1999 at a cost of $1.6 billion over five years and $6.7 billion over ten years. This increase will lead to an additional 150,000 to 180,000 units of affordable housing over five years.

EXTENDING KEY TAX INCENTIVES TO HELP CLEAN UP DISTRESSED COMMUNITIES, MOVE PEOPLE FROM WELFARE TO WORK AND ENCOURAGE RESEARCH AND EXPERIMENTATION:

Expensing of Brownfields Remediation Costs. The budget would make permanent this tax incentive that allows certain environmental remediation costs to be immediately deducted.

Work Opportunity Tax Credit. Set to expire on June 30, 1998, the budget extends this credit to cover employees who begin work before May 1, 2000.

Welfare-to-Work Tax Credit. Designed to encourage employers to hire long-term family assistance recipients, this important credit would be extended for one year and would cover employees who begin work before May 1, 2000.

R & E Tax Credit. To encourage research and experimentation, this credit would be extended for one year through June 30, 1999.

TAX CUTS ARE PAID FOR WITH REDUCTIONS IN UNWARRANTED TAX BENEFITS. For example, the budget proposes that firms allocate their export profits

between

domestic and foreign source income in proportion to their activity in the

United States and abroad, to raise $6.6 billion over five years. The

budget

also proposes to modify reserve rules for annuity contracts and modify

corporate owned life insurance rules to more closely reflect the actual

economics.

PRESIDENT CLINTON !,S FY 1999 BALANCED BUDGET

EDUCATION: PREPARING OUR CHILDREN FOR THE 21ST CENTURY

MAINTAINING OUR COMMITMENT TO MAKING EDUCATION OUR NUMBER ONE PRIORITY.

Building on the historic balanced budget agreement in 1997 which secured

the

largest education investment in 30 years and the largest investment in

higher

education since the G.I. Bill in 1945, the President !,s FY 1999 budget

includes

the following:

Small Classes with Qualified Teachers to Improve Reading in Grades 1-3.

President Clinton is proposing a $12.4 billion initiative over 7 years

($7.3

billion over 5 years) to help local schools provide small classes with qualified teachers in the early grades. This initiative will help ensure that every child receives personal attention, learns to read independently, and gets a solid foundation for further learning. The new initiative will reduce class size from a nationwide average of 22 in grades 1-3 to an average of 18, providing funds to help local school districts hire an additional 100,000 well-prepared teachers. The initiative will also provide funds to states and local school districts to test new teachers, develop more rigorous teacher testing and certification requirements, and train teachers in effective reading instruction practices. School districts will be accountable for demonstrating gains in reading achievement. These steps will help ensure that first through third grade students are receiving high-quality reading instruction in smaller classes from competent teachers.

Modern School Buildings to Improve Student Learning. For students to learn, schools must be well-equipped and be able to accommodate smaller class sizes. To address these and other critical needs, President Clinton is proposing federal tax credits to pay interest on nearly $22 billion in bonds to build and

renovate public schools. This initiative provides more than double the

assistance of the Administration !,s earlier school construction proposal,

which

covered half the interest on an estimated $20 billion in bonds. The tax

credits will cost the Treasury $5 billion over 5 years, and more than $10

billion over ten years. Of the $22 billion in bond authority, nearly $20

billion for a new School Modernization Bonds. Half of this bond authority

will

be allocated to the 100 school districts with the largest number of

low-income

children, and the other half will be allocated to the states.

Education Opportunity Zones: Helping Students in Poor Communities Reach

High

Standards. This initiative will strengthen public schools and help

students

master the basic and advanced skills where the need is greatest: in

high-poverty urban and rural communities where low expectations, too many

poorly prepared teachers, and overwhelmed school systems create

significant

barriers to high achievement. The Education Department will select

approximately fifty high-poverty urban and rural school districts with:

(1) a

demonstrated commitment to use high standards and tests as tools to

identify

and provide help to students, teachers and schools who need it; (2) a strategy

to prevent students from falling behind by ensuring quality teaching,

challenging curricula, and extended learning time; (3) programs to end

social

promotion and turn around failing schools; and (4) evidence of improved

student

achievement. Added investments in these communities will accelerate their

progress and provide models of successful, standards-based reform for the

nation. The President's initiative will invest $200 million in FY99, and

$1.5

billion over 5 years, in raising achievement and sharing lessons learned

with

school districts around the country.

After-School Learning Opportunities. The FY99 Budget includes a

five-year, $1

billion investment in school-community partnerships that create or expand

before - and after-school programs. The Department of Education's 21st

Century

Learning Center Program, funded at $40 million in FY98, would be expanded

to

$200 million per year. With a local matching requirement --aided by a $55

million gift from the C.S. Mott Foundation -- this initiative will

leverage a

total of $2 billion overall for after-school programs.

Reduce and Eliminate Student Loan Fees. Saving students $3 billion over
five
years, the budget will phase out the fees that students pay on need-based
loans
(about 60 percent of all student loans), and will reduce fees on other
loans by
25 percent. Until 1993, students lost up to 8 percent of their loans in
fees
to intermediaries and to the Federal government. Already reduced to 4
percent
as a result of reforms enacted in 1993, the Administration's new plan
would
reduce fees on all loans to 3 percent in 1999, and on need-based loans to
2 perc
ent in 2001, 1 percent in 2002, and eliminated completely in 2003.

Work-Study. The Budget includes a $70 million increase in funding for
the
Federal Work-Study program, bringing the total number of participants to
just
over one million in the 1999-2000 school year -- reaching that goal one
year
earlier than planned. This represents a nearly 50 percent funding
increase
since 1996.

Education Technology. The President !,s FY 1999 budget includes an

increase of
$137 million over the 1998 level to ensure that all children have access to the
Internet, That teachers know how to use technology effectively, and to broaden
access to high quality learning opportunities for adults using the Internet and
other new technologies.

Teacher Training in Technology. This program will ensure that all new teachers entering the workforce can integrate technology effectively into the
curriculum and can understand new styles of teaching and learning enabled by
technology.

Learning Anytime, Anywhere Initiative. This initiative makes it easier for
Americans who live in remote, rural areas, have a disability, or have competing
family and work demands to have access to individualized up-to-date affordable
education and training.

Early Intervention to Promote College Attendance. President Clinton will soon
announce a long-term effort to bring college opportunity to children in

high-poverty areas by providing their families with early information
about
financial aid and appropriate academic preparation, as well as mentoring
and ot
her support services to help the children stay on track through high
school
graduation and into college.

ACCESS TO HEALTH INSURANCE FOR PEOPLE AGES 55 TO 65

BACKGROUND

Americans ages 55 to 65 face special problems of access and
affordability.
They face greater risks of health problems, with twice the chances of
heart
disease, strokes, and cancer as people aged 45 to 54. As people approach
65,
many retire or shift to part-time work or self-employment as a bridge to
retirement, sometimes involuntarily. Displaced workers aged 55 to 65 are
much
less likely than younger workers to be re-employed or re-insured through a
new
employer. As a result, more of them rely on the individual health

insurance

market. Without the benefits of having their costs averaged with younger

people, as with employer-based insurance, these people often face high

premiums.

Such access problems will increase, due to two trends: declines in retiree

health coverage and the aging of the baby boom generation. Recently,

businesses have cut back on offering health coverage to pre-65-year-old

retirees; only 40 percent of large firms now do so. In several small but

notable cases, businesses have dropped retirees !, health benefits after

workers

have retired. These !&broken promise !8 retirees lack access to employer

continuation coverage and could have problems finding affordable

individual

insurance. Finally, the number of people 55 to 65 years old will rise

from 22

million to 35 million by 2010 !* or by 60 percent.

POLICY DESCRIPTION

The President has proposed three policy options to improve access to

affordable

health insurance for targeted groups of Americans ages 55 to 65.

1. Medicare Buy-In for People Ages 62 to 65

The centerpiece of this initiative is the Medicare buy-in for people ages

62 to

65.

! ' Eligibility: People ages 62 to 65 who do not have access to employer sponsored or Federal health insurance may participate.

! ' Premium Payments: Participants would pay two, geographically adjusted premiums:

- Pre-65 premium: The pre-65 premium would be paid monthly between enrollment
and when the participant turns age 65. It is the part of the full premium that
represents the average Medicare costs for people in this age group. For 1999,
it would be around $300 per month and would be updated annually.

- Post-65 premium: The post-65 premium would be paid monthly beginning at age
65 until the beneficiary turns age 85. It is the part of the premium that
represents the extra costs if participants are sicker than average. For 1999,
it would be around $16 per month for each year of participation (about $48 per
month for a person who buys in from age 62 to 65). At the time of enrollment,
participants would be told their post-65 premium. The post-65 premium would be
re-estimated for future participants to ensure that it reflects actual

experience. This premium would be added to their Part B Medicare premium.

This two-part payment plan acts like a mortgage: it makes the up-front premium affordable but requires participants to pay back the Medicare !&loan !8 with interest.

! ' Enrollment: Eligible people would apply at Social Security offices. They would bring proof of their age and eligibility for Medicare when they turn 65. They would do this within 63 days of either turning 62 or losing access to employer-based or Federal insurance (63 days is the maximum time period that a person can be uninsured and still be protected by Health Insurance Portability and Accountability Act).

! ' Applicability of Medicare Rules: Benefits and most protections would be, for paying participants, the same as those of Medicare beneficiaries. Participants would have the choice of fee-for-service or managed care. No Medicaid assistance would be offered to participants for premiums or cost sharing. Medigap policy protections would apply, but the open enrollment provision remains at age 65.

! ' Disenrollment: People could stop buying into Medicare at any time. People who disenroll would pay the post-65 premium as though they had been enrolled for a full year (e.g., a person who buys in for 3 months in 1999 would pay the post-65 premium as though they participated for 12 months). This is intended to act as a disincentive for temporary enrollment. People may only enroll once; for example, a participant may not disenroll at age 63 and re-enroll at age 64.

! ' Medicare Trust Fund Impact: According to the HCFA Actuaries (who also monitor the status of the Trust Funds for the Medicare Trustees), this initiative will not decrease the life of Medicare !,s Trust Funds. Premium collections will be allocated to the Trust Funds in proportion to spending from those Funds for participants. The Medicare Part B premium and managed care rates for regular Medicare beneficiaries will be calculated independently of the buy-in.

2. Medicare Buy-In for Displaced Workers Ages 55 and Over

In addition to people ages 62 to 65, a targeted group of 55 to 61 year

olds
could buy into Medicare. The Medicare buy-in would be the same as above,
with
the following exceptions.

! ' Eligibility: People would be eligible if they are between ages 55 and
61
and: (1) lost their job because their firm closed, downsized, or moved,
or
their position was eliminated (defined as being eligible for unemployment
insurance) after January 1, 1998; (2) had health insurance on their
previous
job for at least one year (certified through the process created under
HIPAA to
guarantee continuation coverage); and (3) do not have access to employer
sponsored, COBRA, or Federal health insurance. Spouses of these eligible
people may also buy into Medicare.

! ' Premium Payments: Participants would pay one, geographically adjusted
premium, with no Medicare !&loan !8. This premium represents the average
Medicare costs for people in this age group (one premium for age 55 to 59,
another for 60 to 61) plus an add-on to compensate for some of the extra
costs
of participants who may be sicker than average. For 1999, the premium
would be

$400 per month and would be updated annually.

! ' Disenrollment: Like people ages 62 to 65, eligible displaced workers and their spouses must enroll in the buy-in within 63 days of becoming eligible. Participants continue to pay premiums until they voluntarily disenroll, gain access to employer-based insurance or turn 62 and become eligible for the more general Medicare buy-in. Once they disenroll, they may only re-enroll if they meet the eligibility rules again (e.g., are displaced again).

3. Employer Buy-In (COBRA Continuation Coverage) for Certain Retirees

The President would also help retirees whose former employer unexpectedly drops their retiree health insurance, leaving them uncovered and with few places to turn.

! ' Eligibility: Termination of retiree health benefits (i.e., they were covered but their employer ended that coverage) for retirees age 55 to 64 and their dependents would become a COBRA qualifying event.

! ' Premium Payments: Participants would pay 125 percent of the active employees !, premium. This premium is higher than what most other COBRA participants pay (102 percent) to help offset the additional costs of participants.

! ' Enrollment: Participants would enroll through their former employer, following the same rules as other COBRA eligibles.

! ' Disenrollment: Retirees would be eligible until they turn 65 years old.
Dependents would be eligible for other related periods of eligibility as other
COBRA enrollees.

! ' Federal Budget Impact: There is no Federal budget impact because costs would
be paid for by the private sector, primarily through retiree premium contributions.

Medicare Anti-Fraud, Waste and Abuse Initiatives

The Medicare buy-in would produce some costs primarily because Medicare is !&loaning !8 participants part of the premium at ages 62 to 65. Even though in
the long-run the buy-in for 62 to 65 year olds is self-financing, the President

has proposed a set of anti-fraud, waste and abuse provisions to offset the up-front !&loan !8 and any costs of the displaced workers !, buy-in. These policies also are part of the President !,s ongoing effort to root out fraud and waste in Medicare. Five of the President !,s anti-fraud, waste and abuse initiatives produce scorable budget savings.

! ' Eliminating Excessive Medicare Reimbursement for Drugs. A recent report by the HHS Inspector General found that Medicare currently pays hundreds of millions of dollars more for 22 of the most common and costly drugs than would be paid if market prices were used. For more than one-third of these drugs, Medicare pays more than double the actual acquisition costs, and in one case pays as high as ten times the amount. This proposal would ensure that Medicare payments be provider !,s actual acquisition cost of the drug without mark-ups.

! ' Eliminating Overpayments for Epogen. A 1997 HHS Inspector General report found that Medicare overpays for Epogen (a drug used for kidney dialysis patients). This policy would change Medicare reimbursement to reflect current market prices (from $10 per 1,000 units administered to $9).

! ' Eliminating Abuse of Medicare !,s Outpatient Mental Health Benefits. The HHS Inspector General has found abuses in Medicare !,s outpatient mental health benefit !* specifically, that Medicare is sometimes billed for services in inpatient or residential settings. This proposal would eliminate this abuse by requiring that these services are only provided in the appropriate treatment setting.

! ' Ensuring Medicare Does Not Pay For Claims Owed By Private Insurers. Too often, Medicare pays claims that are owed by private insurers because Medicare has no way of knowing the private insurer is the primary payer. This proposal would require insurers to report any Medicare beneficiaries they cover. Also, Medicare would be allowed to recoup double the amount owed by insurers who purposely let Medicare pay claims that they should have paid, and impose fines for failure to report no-fault or liability settlements for which Medicare should have been reimbursed.

!' Enable Medicare to Negotiate Single, Simplified Payments for Certain Routine

Surgical Procedures. This proposal would expand HCFA!,s current !&Centers of
Excellence!8 demonstration that enables Medicare to pay for hospital and physician services for certain high-cost surgical procedures through a single,
negotiated payment. This lets Medicare receive volume discounts and, in return, enables hospitals to increase their market share, gain clinical expertise, and improve quality.

A series of other anti-fraud, waste and abuse actions are proposed as well (see
!&Ten-Point Plan,!8 announced by the President on January 24, 1998).

CHILDREN!,S HEALTH OUTREACH

BACKGROUND

Last year, the President, with bipartisan Congressional support, signed into
law the largest single expansion of children!,s health insurance in 30 years.
The Children!,s Health Insurance Program (CHIP) provides funds for coverage of
millions of working families!, uninsured children. These families

typically
have too much income to qualify for Medicaid but too little to afford health
insurance. But, to ensure the success of this program, an aggressive campaign
to enroll eligible, uninsured children is needed.

In addition, over 3 million children are uninsured but eligible for Medicaid
today. Educating families about their options and enrolling them in Medicaid
has always been difficult, but it has recently become even more challenging.
The number of children enrolled in Medicaid leveled off in 1995 and, according
to the Census, dropped by 6 percent in 1996. While some of this decline may be
due to the lower number of children in poverty, another reason for this
decrease may be families!, misunderstanding of their children!,s continued
eligibility for Medicaid that the welfare reform explicitly guaranteed.

POLICY DESCRIPTION

To give States the tools and funding to find and enroll uninsured children, the
President!,s 1999 Budget invests $900 million over 5 years in children!,s
health outreach policies.

Fund for outreach. In welfare reform, a special $500 million pool was
created
to fund efforts to improve Medicaid enrollment of families affected by
welfare
reform.
The President!,s 1999 Budget includes a proposal that would expand the use
of
this fund. States would be able to receive a 90 percent matching rate for
most
outreach activities for all uninsured children, not just those who would
have
been eligible for welfare. The Federal funds to cover the extra matching
(above Medicaid!,s regular matching amount) would come from this fund. In
addition, the proposal would remove the sunset of the fund in 2000 and add
another $25 million to assist States with increased outreach activities.
This
outreach fund would provide States with the resources to simplify
enrollment
systems, launch ad campaigns, educate community volunteers, and conduct
other
outreach campaigns to find and help enroll uninsured children.

Allowing immediate Medicaid coverage through schools, child care resource
and
referral centers, and other sites. The Balanced Budget Act (BBA) of 1997
gave

States a new option in Medicaid to grant !&presumptive eligibility!8 to children. Certain children may receive immediate Medicaid coverage on a temporary basis while waiting for a full Medicaid eligibility determination.

The President!,s 1999 Budget proposes to make this presumptive eligibility option more flexible and attractive to States. First, it would broaden the
definition of who can determine presumptive eligibility to include sites such
as schools, child care resource and referral centers, child support enforcement
agencies and CHIP eligibility workers. These people are on the front lines in
caring for children and could help educate and enroll them in Medicaid. Second, it would eliminate the requirement that States subtract the costs of
presumptive eligibility from their CHIP allotments. Instead, these costs would
be matched as a regular Medicaid State plan option. Both of these changes would give States greater incentives and flexibility for using this option.

In addition, the Department of Health and Human Services (HHS) has identified a
number of ideas and options for States to simplify enrollment and integrate

Medicaid and CHIP. This includes encouraging !&out-stationing!8 of eligibility workers; using mail-in, simple applications; and using a joint application form for both Medicaid and CHIP. (see letter to State Health Officials from HHS, dated January 23, 1998 for details).

CANCER CLINICAL TRIALS FOR MEDICARE BENEFICIARIES

BACKGROUND

More than 40 percent of Americans will be diagnosed with cancer during their lifetime and more than 20 percent will die from it. Less than three percent of cancer patients participate in clinical trials. Moreover, Americans over the age of 65 make up half of all cancer patients, and are 10 times more likely to get cancer than younger Americans. Many scientists believe that higher participation in clinical trials could lead to faster development of therapies for more of those in need, as it often takes between three and five years to enroll enough participants in a cancer clinical trial to make the results scientifically legitimate and statistically meaningful. Older Americans and people with disabilities covered by Medicare frequently cannot participate in cutting-edge cancer clinical trials because the program does not pay for such treatments until they are established as standard therapies.

POLICY DESCRIPTION

The President has proposed a demonstration that would help Medicare beneficiaries access these cutting-edge cancer treatments.

Three-Year Demonstration Program for Medicare Beneficiaries. The proposal would establish a three-year $750 million demonstration program for Medicare beneficiaries to cover the patient care costs associated with certain cancer treatment clinical trials (research studies with patients).

Covers Certain Cancer Clinical Trials. Studies sponsored by the National Institutes of Health (NIH) would qualify. This includes:

- Trials conducted by NCI programs that oversee and coordinate extramural clinical cancer research;

- Trials conducted by Cooperative Groups programs;
- NCI-sponsored trials at NCI-designated cancer centers;
- NCI grants supporting clinical investigators; and
- Clinical trials for cancer conducted at other NIH institutes.

After one year, the proposal also allows for amendments and/or additions
to
this set of trials by the Secretary of Health and Human Services within
the
same funding constraints, with the advice of the Institute of Medicine!,s
National Cancer Policy Board.

Includes Report to Congress Following Three-Year Demonstration. The
proposal
includes a review and evaluation of the demonstration by the Secretary of
Health and Human Services, in consultation with the Institute of
Medicine's
National Cancer Policy Board, to consider whether to extend and/or expand
the
demonstration, no later than 30 months after enactment.

No Impact on the Medicare Trust Fund. The demonstration would be
administered
by the Health Care Financing Administration, which administers Medicare,
but
would be funded by $750 million in receipts from tobacco legislation. It
would

therefore have no effect the financial condition on the Medicare Trust

Fund.

Builds on the Bipartisan Legislation in the Congress. Senator Mack and

Senator Rockefeller and Representative Nancy Johnson have taken leadership

in

this area by proposing similar legislation that would provide cancer

clinical

trial coverage for Medicare beneficiaries.

FUNDS FOR AMERICA

The 1999 President!,s budget meets the challenge of investing in our

future by

proposing three new investment funds for America -- for research, the

environment, and transportation -- to direct resources to these critical

priorities.

The Research Fund for America includes a broad range of investments in

knowledge, including research programs of the National Institutes of

Health;

the Centers for Disease Control; the National Science Foundation; the

National

Aeronautics and Space Administration; the Energy, Agriculture, and

Education

Departments; the Commerce Department!,s National Institute of Standards and Technology; the Department of Agriculture; a multi-agency Climate Change Technology Initiative; and other programs.

The Environmental Resources Fund for America encompasses the multi-agency Clean Water and Watershed Restoration Initiative; the new Land, Water, and Facility Restoration Initiative; the Agriculture Department!,s water and wastewater program for rural communities; and the Environmental Protection Age ncy!,s programs for cleaning up hazardous waste sites (within the Superfund) and for ensuring clean water and safe drinking water.

The Transportation Fund for America includes the Transportation Department!,s highway, highway safety, and transit programs; the Flight 2000 free flight demonstration program; and FAA programs, including Airport Grants.

Together, these deficit-neutral funds provide $75.5 billion in 1999, a $4.7 billion increase over 1998 levels, all of which is requested as discretionary appropriations. The financing of these Funds applies the principle of pay-as-you-go in the Budget Enforcement Act -- which applies to mandatory spending -- to discretionary spending as well. All three funds are deficit neutral, and are financed with a combination of transfers within the discretionary caps and specific mandatory savings and revenue proposals. For 1999, the Funds are financed as follows:

The Research Fund for America is financed through funds available under the discretionary caps, receipts from tobacco legislation, and savings from VA tobacco reform.

The Environmental Resources Fund for America is financed through funds available under the discretionary caps and a renewed Federal tax to support the Superfund.

The Transportation Fund for America is financed through funds available under the discretionary caps.

The use of mandatory offsets for discretionary spending is permissible under current scorekeeping rules and precedents. Mandatory offsets were used in both the FY 1996 (the sale of the U.S. Enrichment Corporation and debt collection reform) and FY 1997 (spectrum receipts and reform of the bank insurance funds) appropriations processes to fund important discretionary programs. Alternatively, Congress may choose to specifically authorize mandatory offsets for the purposes of these new Investment Funds. The Administration intends to work with the Congress to determine the best approach.

ENVIRONMENT AND NATURAL RESOURCES

The 1999 budget requests $31.5 billion in discretionary spending for high-priority environmental and natural resource programs, $1.4 billion, or five percent, more than the 1998 enacted level. The budget includes a major initiative to begin addressing climate change through higher research spending and new tax incentives to spur energy efficiency and develop low-carbon technologies. The budget also proposes an innovative, deficit-neutral financing mechanism for many key environmental restoration programs -- the Environmental Resources Fund for America -- that supports two additional initiatives: water quality, and land/facility restoration.

Climate Change Technology Initiative. The budget provides a five-year, $6.3

billion package of tax incentives and research spending to reduce the Nation!,s emissions of greenhouse gases. The 1999 increase is $0.9 billion, roughly doubling the 1998 enacted level, as a down-payment on the President!,s five-year commitment. Approximately $2.7 billion of the $6.3 billion package is R&D spending to develop more fuel-efficient automobiles and trucks, energy-saving technologies for commercial buildings and homes, more energy-efficient industrial processes, and renewable energy sources such as biomass, wind, photovoltaics, and fuel cells. The remaining $3.6 billion of the $6.3 billion package are tax incentives to stimulate the adoption of more efficient technologies in buildings, vehicles, and power generation. For highly fuel-efficient vehicles, a tax credit of $4,000 would be available in the year 2003 for vehicles that get three times the base fuel economy for their class. A tax credit of $3,000 would be available in the year 2000 for vehicles that get two times the base fuel economy for their class. Both tax credits would phase out over time (the $3,000 credit by 2006; the $4,000 credit by 2010).

Environmental Resources Fund for America. The budget proposes the Environmental Resources Fund for America, a mechanism to use PAYGO offsets to
pay for increases in high priority discretionary environmental programs. The
Fund provides $7.7 billion, 14 percent above 1998, for key environmental r
estoration programs. The Fund includes:

Land, Water, and Facility Restoration Initiative: The budget proposes an increase of $92 million, eight percent more than in 1998 (and $961 million, 16
percent, over 5 years) for construction and maintenance for national parks,
forests, refuges, public lands, and Indian schools. In addition, the initi
ative includes a 43 percent increase in land acquisition spending over the next
five years from the Land and Water Conservation Fund (LWCF) and a 12 percent
increase over five years from the Historic Preservation Fund. The LWCF request
in 1999 is at the 1998 enacted level of $270 million, excluding the $699 million in one-time priority land acquisition funding in the 1997 budget agreement.

Clean Water and Watershed Restoration Initiative: The budget includes $2.2

billion, a $568 million or 35 percent increase over 1998, for a
multi-agency
initiative to restore and protect the Nation !,s waterways by preventing
polluted runoff, protecting public health, and ensuring community-based
watersh
ed management. Within this total, the budget proposes $143 million, the
full
amount authorized, for California Bay-Delta watershed restoration
activities
and $282 million, 24 percent more than in 1998, to continue the
Administration !,s support for restoring the Everglades.

Water Quality Infrastructure: The budget proposes $1.85 billion in
capitalization grants for Drinking Water State Revolving Funds (SRFs),
which
make low-interest loans to help municipalities address water quality. Of
this
amount, the budget includes $1.1 billion in grants for the Clean Water
SRFs and
$775 million for the Safe Drinking Water Act SRFs. The funding levels for
the
two SRFs make progress toward the Administration !,s goal of providing
sufficient capital for the funds to provide $2.5 billion a year in
financial
assistance to municipalities over the long run.
USDA Water 2000: The budget provides funds for USDA !,s Water 2000
initiative

-- to bring safe drinking water to rural Americans with some of the Nation !,s most serious problems of water availability, dependability, and quality -- within its $1.3 billion for rural water and wastewater grants and loans.

Superfund Cleanups: The budget proposes $2.1 billion for Superfund, a 40 percent increase over 1998. These funds will help meet the President !,s pledge to double the pace of Superfund cleanups, bringing the total number of cleanups to 900 by the end of 2001.

EPA !,s Operating Program. The budget proposes $3.6 billion, an eight percent increase over 1998, for EPA !,s operating program, which includes most of EPA !,s research, regulatory, partnership grants (with States and Tribes), and enforcement programs. The program represents the backbone of the Nation !, s efforts to protect public health and the environment through sound science, standard setting, enforcement, and other means, ensuring that our water is pure, our air clean, and our food safe.

Brownfields Redevelopment Initiative. The budget proposes to extend the President !,s Brownfields initiative, which promotes cleanup and redevelopment of abandoned land -- usually in inner cities -- contaminated from previous industrial use. EPA would receive $91 million (+$3 million over 1998) for grants to communities for site assessment and redevelopment planning, and for

revolving loan funds to finance clean up efforts at the local level. HUD would

receive $50 million, $25 million more than in 1998, to leverage State, local,

and private funds for redeveloping cleaned-up sites and creating jobs. The

budget also proposes to extend the targeted tax incentives to spur Brownfields

cleanup.

Endangered Species Act. The budget provides $113 million, a $36 million increase over 1998, for DOI !,s endangered species program, mainly for the Administration !,s new reforms to encourage private landowners to protect species. The budget also includes $40 million, a $10 million increase over

1998, for the National Oceanic and Atmospheric Administration !,s endangered

species program, mainly focused on habitat conservation planning.

Multilateral and Bilateral Environmental Assistance. The budget proposes $322

million, three percent more than in 1998, for bilateral and multilateral environmental assistance. Bilateral assistance includes U.S. Agency for

International Development (USAID) activities to address topics such as biodiversity, and to implement USAID !,s five-year, $1 billion commitment to
help developing countries address climate change. Multilateral assistance funds U.S. voluntary contributions to the UN environmental system and other
international environmental activities.

Global Environment Facility (GEF). The budget provides $300 million for U.S.
obligations to the GEF, which is the world !,s leading institution for protecting the global environment from climate change, extinction of valuable
species, and the oceans !, fish population. This proposal includes $193 million
for U.S. contributions previously due and $107 million for an initial contribution to replenish the GEF between 1999 and 2002.

Federal Facilities Cleanup and Compliance. The budget provides $6.1 billion,
an increase of $275 million over 1998, for the Department of Energy !,s Environmental Management program for cleaning up Federal facilities contaminated with radioactive or hazardous waste left over from over 40 years
of research, production, and testing of nuclear weapons. The budget also includes $4.4 billion for Department of Defense clean-up activities on military

bases, a decrease of $450 million from 1998 largely due to the completion of one-time projects and clean-ups at closed military bases.

CLIMATE CHANGE TECHNOLOGY INITIATIVE

Last fall, the President announced a nine-point plan to begin addressing climate change, including a five-year, $5 billion package of tax incentives and R&D spending to spur energy efficiency and help develop low-carbon energy sources. With the historic agreement in Kyoto in December to reduce greenhouse gas emissions, the President is now proposing a $6.3 billion initiative over 5 years -- $2.7 billion in increased spending and $3.6 billion in tax incentives. For 1999, the budget includes $473 million in increased spending on climate-change related technologies ($1.292 billion vs. $819 million in 1998) and $421 million in tax incentives. The total first-year initiative is $894 million, and covers the following areas:

BUILDINGS

Accelerate the deployment of existing technologies through better labeling of highly efficient technologies and appliances, through the Partnership for Advanced Technologies in Housing (PATH), and through tax credits for the purchase of certain highly efficient building equipment and for the purchase of highly-efficient new homes. PATH will be a cooperative effort by HUD, DOE, and EPA to work with the building industry and communities to develop and deploy the best available housing technologies and practices.

The tax cuts include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a credit of up to $2,000 for purchasing energy-efficient new homes, an extension of the wind and biomass tax credit, and a 10 percent investment credit for the purchase of combined heat and power systems.

Million Solar Roofs. Last June the President announced an initiative to encourage the installation of one million solar hot water and photovoltaic installations on buildings over the next 10 years. DOE will fund cost-reduction R&D for rooftop solar systems, and will establish partnerships with communities and builders. In addition, the budget includes a 15 percent tax credit (up to $2,000) for purchases of rooftop solar equipment -- to provide incentives for meeting the Million Solar Roofs goal.

DOE is also increasing its research on building systems modeling and on major components such as advanced heat-pumps, cooling systems, furnaces, and lighting.

INDUSTRY

DOE will intensify its partnerships with industry on technology roadmaps and plans to reduce energy consumption and secure early reductions in greenhouse gas emissions. Partnerships currently exist with the aluminum, steel, glass, paper and forest products, metal casting, and chemicals industries. Cost -shared R&D with industry teams and consortia will be enhanced, and complementary efforts will be undertaken by EPA, USDA, and DOC (NIST), leading to voluntary industry greenhouse gas reductions.

Combined heat and power is an advanced form of cogeneration that integrates power generation with the provision of useful thermal energy in a factory or building. This initiative combines R&D with a 10 percent tax credit for investments.

Fluorine recovery tax credits. Tax credits are proposed for certain investments to remove or recycle fluorine and fluorocarbon compounds that are potent greenhouse gases.

TRANSPORTATION

The Partnership for a New Generation of Vehicles (PNGV) is a government-industry effort to develop a safe, clean, and affordable car that gets up 80 miles per gallon. Production prototypes are planned for 2004. DOE is the largest player, followed by EPA, DOC, NSF, and DOT. In 1999, the combined request for PNGV-related work in those agencies is $277 million, up from $227 appropriated in 1998. The budget also proposes tax credits to encourage the purchase of this type of highly-efficient vehicle.

Tax Credits For Fuel Efficient Cars. The budget includes tax credits of $3,000 and $4,000 for consumers who purchase advanced-technology, highly fuel efficient vehicles -- expected to total $660 million over the next five years.

Partnerships for Light and Heavy Trucks. Similar government-industry efforts are proposed to develop more efficient diesel engines for both light trucks and heavy trucks.

Sustainable Transportation promotes alternatives to single-occupancy vehicle travel, modeled after the approach adopted by Portland, Oregon. Programs in EPA and DOE will be coordinated with existing and planned DOT programs, and a tax law amendment is proposed to equalize treatment of employee parking and transit benefits.

ELECTRICITY

Renewable energy. DOE will expand research partnerships in technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate price reductions and improve performance. The 1999 budget proposes a $100 million increase for solar and renewable energy R&D -- a 37 percent increase over 1998 -- and a 5-year extension is proposed for the tax credit for electricity produced from wind and biomass.

Electricity Restructuring. DOE and EPA will work with States and utilities to ensure that the restructuring does not impede the adoption of renewable energy technologies.

Nuclear power-plant life extension. DOE will initiate an R&D effort addressing the critical technology needs to allow currently-operating nuclear power plants to safely extend their operating lifetimes by 10 to 20 years, which will make the transition to other low-carbon energy sources, such as solar and renewable energy, much easier.

Innovative coal combustion technologies. In 1999, DOE will initiate a research program on innovative new approaches to coal combustion that offer the possibility of much lower carbon emissions than existing technologies.

CARBON REMOVAL AND SEQUESTRATION.

Sequestration R&D. Research is being funded on biological and physical methods of removing carbon dioxide (CO2) both from combustion gases and from the atmosphere.

CROSSCUTTING ANALYSIS AND RESEARCH

Emissions credits, incentives, and trading. EPA will evaluate options for a domestic trading system and early reduction program in industry, based on industry consultations.

Program and science assessments. DOE will lead efforts to assess the implications of new research results produced by the Global Change Research Program.

RESEARCH AND DEVELOPMENT

The 1999 budget provides a total of $78.2 billion for research and development (R&D) investments -- a three percent increase over 1998. Civilian R&D comprises 48 percent of this total, continuing a gradual increase in emphasis on non-defense R&D. The budget provides $16.7 billion for basic research and $16.4 billion for applied -- increases of eight and five percent, respectively, over the 1998 levels. The budget provides $14.5 billion for university-based research, or six percent more than in 1998. The centerpiece of the Administration !,s continuing commitment is the proposed Research Fund for America (RFA), from which many of the research dollars will now flow.

RESEARCH FUND FOR AMERICA

Reflecting the President !,s commitment to ensuring long-term stability and growth for civilian research programs, the budget proposes a Research Fund for America that will support a wide range of Federal science and technology activities. The budget proposes $31 billion for the Fund, representing an eight-percent increase for these activities over the 1998 level. By 2003, the Fund will grow by 32 percent.

HIGHLIGHTS BY AGENCY

Department of Defense (DoD). The budget provides $37 billion for DoD research and development -- a one-percent decrease from 1998. Highlights include the Dual Use Applications Program and the Commercial Operations and Support Savings Initiative, which promote development of dual-use technologies and adapt cost-saving commercial technology for military uses. The budget also supports Advanced Concept Technology Demonstrations, which harness technology and innovation for military use, at less cost.

National Institutes of Health (NIH). The budget provides a $1.15 billion increase for NIH, the largest ever, to a proposed $14.8 billion agency funding level that will support greater research on diabetes, brain disorders, drug demand reduction, genetic medicine, disease prevention strategies, and the development of an AIDS vaccine. Within this level, the budget provides a 10 percent increase in cancer research at NIH, highlighting renewed efforts to prevent, detect, and, ultimately, cure cancer. From 1999 to 2003, the NIH budget will grow by nearly 50 percent and cancer research at NIH will grow by 65 percent.

National Aeronautics and Space Administration (NASA). The budget provides $13.5 billion for NASA in 1999 -- a one-percent decrease from 1998 -- and supports various ongoing activities, including: $2.1 billion for Space Science -- a three percent increase over 1998, leading to more robotic exploration of the solar system; $1.4 billion for Earth Science (formerly Mission to Planet Earth), which explores the influence of natural processes and human activities on the environment; $389 million for Advanced Space Transportation Technology, including funds for the X-33 and X-34 reusable launch vehicle technology demonstrations; $786 million for NASA !,s Aeronautics Research and Technology programs, including Aviation Safety R&D; and $760 million in future-year funds to support launch vehicles that would lower NASA !,s launch costs. The budget also includes $2.3 billion for the International Space Station.

Department of Energy (DoE). The budget provides $7.2 billion in R&D funding for DoE -- an eleven percent increase over 1998. The budget includes resources for science research and nuclear fusion programs, for constructing the National Spallation Neutron Source, for the international partnership on the Large Hadron Collider, and for DoE research under the Climate Change Technology Initiative.

National Science Foundation. The budget provides $3.7 billion, 10 percent more than in 1998, for NSF, whose broad mission is to promote science and engineering research and education across all fields and disciplines. The $344 million increase is NSF !,s largest ever.

Department of Agriculture (USDA). The budget provides $1.4 billion for

R&D at

USDA and includes support for the Agricultural Research Service, the

Economic

Research Service, and Cooperative State Research, and Forest Service

programs.

The budget also requests $130 million (+25 percent) for USDA's

high-priority

National Research Initiative, and proposes a new Food Genome Initiative

expanding efforts to understand the genomes of important plants, animals

and

microbes.

Department of the Interior (DOI). The budget provides $807 million for

Interior !,s U.S. Geological Survey -- a 6 percent increase over 1998 --

for

natural resource and environmental sciences in clean water, natural

hazards

reductions, and wildlife biology and habitat.

Department of Commerce (DoC). The budget provides $1.1 billion for R&D

at DoC

-- essentially equal to the 1998 level -- and includes funding for the

National

Institute of Standards and Technology (NIST) Advanced Technology Program,

construction of an Advanced Measurement Laboratory on the NIST campus in

Gaithersburg, Maryland, and Oceanic and Atmospheric Research activities.

Department of Veterans Affairs (VA). The budget provides $0.3 billion to VA !,s research program to conduct basic clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. Research will focus on aging, chronic diseases, mental illness, substance abuse, sensory loss, trauma, health systems, special populations (including Persian Gulf veterans), and military occupation and environmental exposures.

MULTI-AGENCY INITIATIVE HIGHLIGHTS

Climate Change Technology Initiative. The budget includes a five-year R&D program to reduce the Nation !,s emissions of greenhouse gases. Led by the Department of Energy and the Environmental Protection Agency, the effort also includes activities of the National Institute of Standards and Technology and the Departments of Agriculture and Housing and Urban Development. The budget proposes a combined $2.7 billion increase over five years for these agencies for R&D on energy efficiency, renewable energy, and carbon-reduction technologies. The budget also proposes $3.6 billion in tax incentives over

five years to stimulate the adoption of more efficient technologies in buildings, industrial processes, vehicles, and power generation.

US Global Change Research Program. The budget provides $1.9 billion -- essentially equal to the 1998 level -- to increase understanding of climate change and variability, atmospheric chemistry, and ecosystems.

Large Scale Networking and High End Computing. The budget provides $850 million for this R&D effort, originally called High Performance Computing and Communications, which the Administration has restructured to focus on clearer goals, milestones, and performance measures. As part of this effort, the budget includes $110 million for the Next Generation Internet Initiative.

Partnership for a New Generation of Vehicles (PNGV). The budget provides $277 million -- a 22-percent increase over 1998 -- for this cost-shared, industry partnership. Federal funding focuses mainly on development of production prototype vehicles three times more fuel efficient than today !,s cars, with no sacrifice in comfort, performance, or price.

OTHER HIGHLIGHTS

US/Mexico Foundation. The budget provides $5 million to enhance U.S. and Mexican science and technology strengths by supporting research, training, and
human resource development directed at problems common to both countries.

Global Learning and Observations to Benefit the Environment (GLOBE). The budget provides $14 million for GLOBE, an international K-12 education and science partnership linking schools and scientists to make and interpret environmental measurements and share information over the Internet.

Education Research Initiative. The budget provides $50 million per year for
five years for a partnership between the Education Department and the National
Science Foundation to support research focused on the best approaches to raising student achievement through, for example, learning technologies, and
innovative approaches to reading and mathematics instruction that take advantage of the latest research findings in cognitive research, and research
on brain development in young children.

HEALTH RESEARCH

IN THE RESEARCH FUND FOR AMERICA

BACKGROUND

Recent progress in biomedical research has ensured that many of the diseases
Americans faced a generation ago can now be prevented or treated. Smallpox has
been eradicated from the entire world and polio is gone from the Western Hemisphere. There are new therapies for some of the most devastating diseases,
such as AIDS. These successes would not have occurred without a strong sustained support of biomedical research. Even more breakthroughs are in sight. For example, new knowledge about both genetics and the structure of
tumors may enable scientists to pinpoint more effective treatments for prostate, breast, and ovarian cancer. There are also new opportunities to learn more about preventing diseases. Finally, there are new possibilities to
determine how to translate cutting edge discoveries into practical, improved
care.

POLICY DESCRIPTION

To build on this progress and new possibilities, the !&21st Century Research

Fund !8 contains an unprecedented, multi-year commitment to improve health
care
research. It contains new funding for investments in biomedical research,
prevention research, and research to improve health outcomes. In 1999
alone,
this Fund contains:

! ' An Historic $1.15 Billion Investment in Biomedical Research. To build
on
the progress in biomedical research, the Fund contains a historic up-front
investment in biomedical research !* a $1.15 billion increase in FY 1999 !
* and
proposes an increase in NIH funding of nearly 50 percent over the next
five
years. Under the President !,s proposal, the NIH will devote over $20
billion
to biomedical research in 2003. This increases funding at all of the
Institutes at NIH, including a 65 percent increase in cancer research
funding.

! ' $25 Million Increase in New Prevention Research. The Fund also
includes a
new Prevention Research Program at CDC to identify interventions that
prevent
diseases.

! ' $25 Million Increase In Quality and Health Outcomes Research. Research at

the Agency of Health Care Policy and Research (AHCPR) bridges the gap

between

what scientists know and the health care Americans receive. In FY1999,

total

funding for AHCPR would increase by $25 million to a total of $171

million.

Funding for health care quality improvement, which will address the

scientific

research recommendations of the President !,s Quality Commission, would

double

from $15 million to $30 million.

$300 Million Increase In Veteran !,s Research. The Budget provides $300

million to VA !,s research program to conduct basic clinical,

epidemiological,

and behavioral studies across the entire spectrum of scientific

disciplines.

FY 1999 research will focus on aging, chronic diseases, mental illness,

substance abuse, sensory loss, trauma, health systems, special populations

(including Persian Gulf veterans), and military occupation and

environmental

exposures.

RESTORING BENEFITS TO

VULNERABLE GROUPS OF LEGAL IMMIGRANTS

The President believes that legal immigrants should have the same opportunity, and bear the same responsibility, as other members of society. Upon signing the 1996 welfare law, he pledged to work toward reversing the harsh, unnecessary cuts in benefits to legal immigrants that had nothing to do with moving people from welfare to work. As part of last year !,s Balanced Budget Act (BBA), the President worked with Congress to restore Medicaid and Supplemental Security Income (SSI) to hundreds of thousands of disabled and elderly legal immigrants. In the 1999 budget the President proposes to restore Food Stamp benefits to vulnerable groups of legal immigrants and to provide States the option to provide health assistance to immigrant children.

FOOD STAMP BENEFITS

The 1999 budget proposes to restore Food Stamp benefits for vulnerable groups of legal immigrants. The President !,s proposals would provide Food Stamp benefits to an additional 730,000 legal immigrants in 1999 at a cost of $2.5

billion over 5 years. Specifically, benefits would be restored for:

Families with children. This provision restores eligibility to families with children without regard to the immigrant !,s date of entry into the U.S. It will assist hundreds of thousands of families with citizen children and legal immigrant parents who are now depending upon only a partial Food Stamp benefit for the citizen children. Restoration of benefits to families with children will ensure that children receive the nutrition they need to become healthy, productive members of our society.

Immigrants with disabilities and elderly immigrants age 65 and older. This provision parallels the action taken in the BBA for SSI and Medicaid. Consequently it applies to those who entered before welfare reform was enacted. Immigrants who have already come to the U.S. should not be penalized when they have played by the rules.

Refugees and asylees. The current law exemption for refugees, asylees, and those whose deportation has been withheld would be extended from 5 to 7 years.

The Nation admits refugees and asylees for humanitarian reasons and many need more time to naturalize than the current exemption provides. This provision parallels the action taken in the BBA for SSI and Medicaid.

Hmong immigrants from Laos who came to the U.S. after the Vietnam war. This provision recognizes the unique history and special needs of this group.

Certain Native Americans living along the Canadian and Mexican borders. This provision also parallels a similar provision for SSI and Medicaid in the BBA that corrects an oversight in the welfare reform law.

The Administration !,s proposal would first require immigrants to seek assistance from those who sponsored the immigrant into the country. Recent immigrants whose sponsors signed the new legally binding affidavits of support would be ineligible for Food Stamps unless the sponsor became destitute. When support is unavailable from an immigrant !,s sponsor, the Nation should provide a safety net for vulnerable groups of immigrants who are legal, permanent residents of our country.

HEALTH COVERAGE

The 1999 budget also proposes to provide States the option to provide health care coverage through Medicaid and the Children !,s Health Insurance Program (CHIP) for legal immigrant children. This provision gives States the option to provide health coverage through Medicaid and CHIP to legal immigrant children regardless of when they entered the country. States currently have the option to cover legal immigrant children who entered the country before the 1996 Welfare law was enacted. The 1999 budget extends this option to allow states to cover immigrant children who entered the country after the 1996 welfare law was enacted.

For this purpose, the budget provides an additional $230 million over five years in Medicaid. State spending would be matched at Medicaid matching rates. The budget would also allow states to cover immigrant children through their current CHIP allotment. To give States flexibility, States can chose to cover immigrant children through either Medicaid or CHIP, or through both programs.

This policy provides access to needed medical care for low-income, legal immigrant children who become seriously ill or who have an accident. This policy would also provide access to preventative health care services for a very vulnerable population. The President !,s proposal does not undermine the central goal of welfare reform -- which is to move adults from welfare to work -- but, would instead allow immigrant children to get the best possible start in life.

HIV/AIDS

The 1999 budget continues the Administration !,s strong record of support for HIV/AIDS throughout the government:

HHS DISCRETIONARY AIDS FUNDING UP 8 PERCENT

The budget provides $3.8 billion for discretionary HIV/AIDS activities at the Department of Health and Human Services, an increase of 8 percent over 1998 and an 83 percent increase over FY 1993. Total funding for HHS HIV/AIDS activities, which includes both mandatory -- Medicaid, Medicare and Social Security -- and discretionary activities -- NIH and Ryan White -- is $9.7 billion, an 8 percent increase over 1998 and an 85 percent increase over the 1993 level of $5.2 billion.

RYAN WHITE AIDS TREATMENT GRANTS UP 14 PERCENT

The budget includes $1.315 billion for Ryan White AIDS Treatment Grants, a $165 million (14 percent) increase over 1998 and a 241 percent increase over the 1993 level. Included in this amount is a $386 million set-aside for grants to State AIDS Drug Assistance Programs (a 35 percent increase over the 1998 level of $286 million, and a 642 percent increase since the set-aside began in 1996, which will help ensure that low-income people with HIV/AIDS have access to powerful combination therapy drugs.

HUD HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS (HOPWA) UP 10 PERCENT

The budget includes $225 million for HOPWA, a $21 million (10 percent) increase over the 1998 level of $204 million and $125 million (125 percent)

over the 1993 level of $100 million.

NIH AIDS RESEARCH UP 7.7 PERCENT

The budget includes $1.731 billion for AIDS research activities at the

NIH, a

7.7 percent increase over 1998 and a 62 percent increase over 1993. In

May

1997, the President challenged the scientific community to develop an AIDS

vaccine within the next ten years. As a leader in biomedical research,

NIH

will spearhead the scientific community's efforts to meet the President !,s

challenge.

CDC HIV AND STD PREVENTION ACTIVITIES INCREASED BY $15 MILLION

The budget includes $15 million in new resources at CDC for HIV

prevention

(+$5 million) and other sexually transmitted disease activities (+$10

million),

as part of the President !,s initiative to address racial health

disparities.

The budget has increased resources for CDC HIV Prevention activities by 28

percent since 1993.

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ussaleg (ussaleg@essential.org@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:10-FEB-1998 15:42:00.00

SUBJECT: Leg. Report 11 2/9/98

TO: Jason S. Goldberg (Jason S. Goldberg@EOP [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Legislative Report 11

Friday, February 6, 1998

This report focuses on the President's Fiscal Year 1999 budget proposals and the scheduled change on student loan interest rates. The report also contains a brief update on the Reauthorization timeline and affirmative action. USSA is continuing to work closely with Senator Jack Reed's office (D-RI) on a new proposal for reauthorizing the State Student Incentive Grant (SSIG) and with Rep. Charles Schumer's office (D-NY) on proposals for improving campus safety. These proposals will be discussed in detail in the next legislative report.

FISCAL YEAR 1999

The President released his Fiscal Year 1999 budget proposals on February 3. His overall budget included $31.2 billion for education in discretionary spending, an increase of $1.7 billion (or 5.9%) over last year. Much of this funding, however, will go toward elementary and secondary education programs. Higher education programs, in comparison, received much smaller increases. The chart below indicates the funding levels for higher education programs in FY97, FY98, and the President's proposed FY99 funding levels as well as the percentage change in the programs from FY98.

	FY 97	FY 98	FY 99 Clinton Proposal	% Change
Pell	5.9b	7.3b	7.6b	3.4%
Pell max	$2700	$3000	$3100	
TRIO	500m	530m	583m	10.1%
FSEOG	583m	614m	619m	0.8%
SSIG	50m	25m	0	-100%
Perkins	158m	135m	60m	-55.6%
FWS	830m	830m	900m	8.4%
Grad Programs:				
Harris	0	0	0	0
Javits	6m	0	0	0
GAANN	24m	30m	30m	-100%
Historically Black Colleges	109m	118m	134m	13.5%
Hispanic Serving Institutions	11m	12m	28m	133.3%

Strengthening Institutions (mostly community colleges)	55m	55m	60m	8.2%

New Initiatives:

College-School Partnerships	$140m
Early Awareness Information	$15m
National Need Graduate Fellowships	$37.5m
Tribally Controlled Colleges	$5m

PLUSSES AND MINUSES OF THE PRESIDENT'S PROPOSALS:

PLUSSES

+ USSA applauds the President for proposing significant investments in new programs to recruit and retain low-income students. As part of the "High Hopes for College" initiatives, the President has allocated $140 million in his budget for the development of College-School partnerships. The partnerships would link universities, college students, and community organizations with middle and high schools in low-income areas to provide the younger students with mentoring and other supports, such as tutoring, college visits, summer programs, after-school activities, and counseling. Grants would be distributed to universities or community organizations based on a competitive application process.

USSA worked with the White House in the development of this initiative, and we are pleased that our recommendations ensuring at least one full-time program co-ordinator, support services for mentors, and the provision of information about higher education options, required courses, and financial aid have been incorporated into the requirements for grant recipients. We will also continue working with the White House and the Department of Education as they draft the legislative language and the regulations pertaining to this initiative to make sure that college students' needs and concerns are addressed and that their experience with both successful and unsuccessful mentorship programs is utilized.

+ Linked to the College-School Partnership initiative, the President has proposed allocating $15 million for an Early Awareness Information initiative. This initiative would help educate students and families, particularly those from high-poverty areas, about academic coursework needed to gain entrance to college and about financial aid opportunities available. USSA has been a long time advocate for a broad-scale public relations campaign (such as the U.S. Army's "Be All You Can Be" campaign) for higher education. USSA supports this initiative as a good step in that direction and will urge the Department of Education to disseminate information and promote college study through means effectively designed to reach the targeted audiences.

+ The President proposed a $53 million increase in the TRIO programs. TRIO programs fund higher education outreach and student support services that encourage individuals from disadvantaged backgrounds to enter and complete college. The TRIO programs which include Upward Bound, Student Support Services, Talent Search, and the McNair Scholars program which encourages disadvantaged students to pursue graduate study, have been enormously successful. USSA has been a long-time advocate for the expansion of these programs, which currently serve less than 10% of the eligible population.

+ USSA also supports the increased funding for Historically Black Colleges and Universities and Hispanic Serving Institutions, as well as the new initiative to strengthen Tribally Controlled Colleges. These schools offer uniquely supportive environments and often have much better retention rates for students of color than predominantly white universities.

MINUSES

- USSA is very disappointed that the President has shied away from his commitment to the Pell grant program, proposing only a $100 increase in the Pell grant maximum even through the grant needs much larger increases after years of significant underfunding. (Remember, the Pell grant used to cover nearly 80 PERCENT of public school costs and 40 PERCENT of private school costs, making it a true grant for educational access. Today, however, the maximum grant covers less than 40 PERCENT of public and less than 20 PERCENT of private school costs.)

- USSA is also sorely disappointed that the President has proposed eliminating the State Student Incentive Grant (SSIG), the ONLY federal program that encourages states to invest in higher education, and making drastic cuts in the Perkins loan program (a 5% interest loan program for low-income students). These changes could significantly curtail education access for the neediest students.

PLUS and MINUS

Graduate Education: USSA supports the President's proposal to invest more money in graduate fellowships. We believe the President's funding request is a step in the right direction after several years of either cut backs or level funding. However, USSA is concerned that the President's proposal would consolidate three programs, each with unique purposes and serving particular needs.

The President's budget also includes funds to reduce origination fees by 1% next year and to eliminate the fees altogether for subsidized borrowers by the year 2003. USSA has been fighting to eliminate these punitive and unjust fees and will press for the outright elimination of fees for all borrowers during Reauthorization of the Higher Education Act.

INTEREST RATES ON STUDENT LOANS

The battle waging over the interest rates on student loans has intensified. The banking industry has sent numerous troops up to Capitol Hill to pressure legislators to preserve their profits and are now contacting college presidents and trying to gain their support as well! Remember, under current law, the interest rate on student loans is scheduled to drop by a full percentage point (from approximately 8% to 7%) beginning in July, 1998. The scheduled change will mean long-needed cost reductions for students who continue to drown in overwhelming amounts of debt. For example, a student with $15,000 in debt who paid her loans back over ten years would save $1000 with a 1% drop in interest rates. A student with $40,000 in debt paying her loans back in 10 years would save $2,500. The same student who needed 20 years to repay her loans would save $6,100. Of course, these savings for students mean losses in the banking industry's profits, and, thus, they are putting lots of pressure on legislators to alter the law. STUDENTS MUST LET THEIR LEGISLATORS KNOW THAT THIS ISSUE IS OF VITAL CONCERN AND THAT WE CAN NOT BE SACRIFICED TO SAVE THE BANKERS PROFITS! CALL YOUR CONGRESSIONAL OFFICES (1-202-225-3121 to be connected) AND DEMAND THAT YOUR LEGISLATORS CHAMPION STUDENT NEEDS FOR REDUCED INTEREST RATES!

REAUTHORIZATION TIMELINE

As stated previously, the House Post-Secondary Education, Training, and Life-Long Learning sub committee, chaired by Rep Buck McKeon (R-CA), is preparing to introduce their Reauthorization bill in late February and have the full Education and the Workforce Committee review the bill in early March. The Senate Labor and Human Resources Committee, chaired by Sen. Jim Jeffords (R-VT) will probably introduce their Reauthorization bill a few weeks after the House. Thus, USSA's Grassroots Legislative Conference and National Student Lobby Day (Tuesday March 10) will fall at the perfect time for students to express any concerns they have with the Congressional bills and argue for better student benefits!

AFFIRMATIVE ACTION

Rep. Charles Canady (R-FL) is redrafting his anti-affirmative action bill in order to make it more appealing to moderate Republicans. Although he plans to recraft the language of the bill, the intent and the purpose of the legislation (to eliminate all federal affirmative action policies and all federal funding for agencies or institutions, including colleges or universities, that have affirmative action programs) will remain the same.

****

TAKE ACTION ON CAPITOL HILL!

JOIN THE U.S. STUDENT ASSOCIATION IN THE
29TH ANNUAL GRASSROOTS LEGISLATIVE CONFERENCE
AND NATIONAL STUDENT LOBBY DAY!

MARCH 7-10,1998

GALLAUDET UNIVERSITY
WASHINGTON D.C.

****

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Washington, DC 20005

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=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ITF2R9RJTS00C5F5@PMDF.EOP.GOV>; Tue,

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================= END ATTACHMENT 1 =================

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ransdell (ransdell@calinst.org@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:12-FEB-1998 23:41:00.00

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California Capitol Hill Bulletin

Volume 5, Bulletin 6 -- February 12, 1998

To View Online: http://www.calinst.org/bulletins/bull506.htm

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DOE Announces Livermore Supercomputer Contract

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Southwest Defense Complex

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To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods. The e-mail edition is made possible in part by a computer server donation from Sun Microsystems.

SENATE FINANCE EXTENDS EMPLOYER EDUCATION ASSISTANCE TO GRADUATE LEVEL

On Tuesday, the Senate Finance Committee reported out an education tax bill (S. 1133) that includes an extension of the

Section 127 employer education assistance to graduate students. Section 127 allows students to deduct from their income tuition assistance received from their employers. Last year, Congress extended the provision for three years, but limited it to undergraduate studies.

The Finance Committee's action extends Section 127 through December 31, 2002 and provides the income exemption benefits to graduate courses, as well as undergraduate. California's high technology industry strongly supports the income exclusion for graduate studies, because of the need for advanced education in the industry. Other provisions approved by the Committee would give state-sponsored pre-paid tuition plans tax-free treatment (under existing law they are tax-deferred) and will raise limits on contributions to an education IRA from $500 to $2000 per year.

SCAG TRANSPORTATION BRIEFING

The Southern California Association of Governments (SCAG) held a briefing in the Capitol on Monday to discuss their Regional Transportation Plan and to demonstrate SCAG's new desktop geographic information systems (GIS) software. The Southern California Association of Governments serves as the metropolitan planning organization for approximately 16 million residents in a six-county region of Southern California.

Representative Steve Horn (Long Beach) addressed the gathering, reaffirming his commitment to increase funding for transportation and to ensure California's gets its fair share of the formula funds available under ISTEA. According to SCAG, many provisions of its regional transportation plan will depend on the authorization or funding of programs included in the House and Senate ISTEA reauthorization bills. SCAG highlighted the Mag-lev and TIFIA programs to help build high-speed rail, authorization for value pricing and toll roads, and designation of the Southwest passage as a corridor of national significance. In addition, SCAG supports efforts to help the region meet federal air quality standards under a financially constrained plan.

SCAG also demonstrated its new GIS software which gives data on over 500 Census variables, including transportation data, for the six-county region of the Imperial, Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties. SCAG also has provided TranStar, an automated transit trip planning system, to its members which allows users, particularly welfare-to-work participants, to plan detailed travel guides using transit to get to work. If you'd like to learn more about SCAG and its GIS software, please visit their web site at <http://www.scag.ca.gov> or call their Los Angeles office at 213/236-1800.

GOVERNOR WILSON SETS DATE FOR 9TH DISTRICT SPECIAL ELECTION

Governor Wilson this week set a special election for April 7th to determine a replacement for Representative Ron Dellums who retired from Congress on February 6th. Under state law, if no state candidate receives more than 50% of the vote on April 7th, the top vote-getters in each party will square off on June 2nd (the same date as the statewide primary election). Governor Wilson has already set April 7th for the 44th District special election to fill the seat vacated by the late Rep. Sonny Bono.

PRESIDENT DECLARES MAJOR DISASTER IN 27 CALIFORNIA COUNTIES

Mudslides, high winds, and flooding have hit the California coast hard in the last three weeks, wrecking havoc in over half of the state. In response to Governor Wilson's request for relief from the winter storms, on Monday President Clinton declared major disasters in 27 of the state's 58 counties in California. The President's action makes available federal funding for individuals through housing, grants, and low-cost loans to cover property losses in the affected areas. Federal funding is also available to local governments who qualify for assistance in debris removal, emergency protective measures, and hazard mitigation measures.

Preliminary damage estimates done earlier this week climbed to over $275 million in property damage and agriculture losses. The Governor's Office of Emergency Services said in press reports that more than 1,150 homes and 280 other buildings were damaged as a result of the storms.

Californians are expecting more rainfall in the coming weeks. Many regions, especially those in the North, are far above their average rainfall. Some estimates place San Francisco and Oakland at 245% of seasonal precipitation and Los Angeles at 156% of normal. Meteorologists believe it is too early to measure the impact or attribute the unusual amounts of rainfall brought by the El Ni¤o weather pattern.

The 27 declared counties are: Alameda, Butte, Calaveras, Colusa, Contra Costa, Glenn, Humboldt, Lake, Marin, Mendocino, Merced, Monterey, Napa, San Benito, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Sonoma, Sutter, Tehama, Ventura, Yolo, and Yuba.

For more information on weather forecasts, 1998 flooding, and other emergency public information, please visit the Governor's Office of Emergency Services' web site at <http://www.oes.ca.gov>.

REP. FARR CIRCULATING FEDERAL DISASTER AID LETTER

Representative Sam Farr (Carmel) is circulating a letter addressed to President Clinton, urging the Administration to continue to provide federal support for California areas that need assistance to recover from the effects of the recent winter storms. "Given that California's economy is the seventh largest in the world," the letter states, "a sustained recovery is in the best interests of the country." Earlier this week, the President declared 27 California counties major disaster areas, which allowed federal aid to begin flowing to individual and local governments affected by the storms and flooding (see related article). The letter thanks the President for efforts so far, and encourages him to continue providing federal aid as more winter storms come ashore during the next two months.

Members wishing to sign the letter should contact Debbie Merrill with Representative Farr at 225-2861 by the close of business on Tuesday, February 17th.

HOUSE PANEL CONSIDERS IMPACT OF TRADE AGREEMENTS ON AGRICULTURE

On Thursday, the Subcommittee on Trade of the House Ways and

Means Committee held a hearing to examine U.S. efforts to reduce trade barriers in agriculture. Representatives from the U.S. Department of Agriculture (USDA), U.S. Trade Representative (USTR), American Farm Bureau, and various farm commodities testified before the Subcommittee on the success and failures of recent trade agreements, such as the Uruguay Round and the North American Free Trade Agreement (NAFTA), to open foreign agriculture markets. The U.S. will again have an opportunity to address agriculture trade in 1999, when another round of multilateral talks take place under the World Trade Organization (WTO).

While these trade agreements have increased the productivity and opportunity for agricultural exports, many witnesses testified that there is still work to be done to reduce tariff and non-tariff barriers to trade. Anita Brown, representing the Western Growers Association, encouraged Congress and the Administration to reexamine and enforce existing trade agreements before further liberalization of U.S. markets. (The Western Growers Association represents over 90% of fresh vegetables and about 60% of the fresh fruit and nuts grown in Arizona and California.)

Witnesses identified four major issues to be addressed in upcoming trade negotiations: implementation of agreed upon phytosanitary barriers, harmonization of labeling requirements, adequate funding of federal agencies for food inspections, and more transparency of domestic subsidies provided to growers by competing foreign nations. Michael Wootton of Sunkist Growers, also testified that the Uruguay Round Sanitary and Phytosanitary (SPS) should be further strengthened in future trade negotiations and the

U.S. should compel more counties to meet the already agreed upon standards. Several industry representatives singled out nations such as Japan, China, and Mexico for not meeting the agreed upon phytosanitary standards. (Sunkist Growers, a farmer-owned marketing cooperative, produce approximately 65% of the oranges, lemons, and grapefruit grown in Arizona and California.)

Most testifying before the Committee also joined USDA and USTR in supporting the renewal of the fast track negotiating authority as a tool to help reduce trade barriers. The Wine Institute also submitted comments on U.S. efforts to reduce trade barriers. According to the Wine Institute, while the U.S. has the lowest tariffs and most open market for wine imports, U.S. winegrowers face high tariffs and barriers in other nations, especially to Mexico.

In 1996, U.S. exports totaled $60 billion and California's agricultural exports alone totaled nearly $13 billion. At the hearing, Ranking member Representative Robert Matsui (Sacramento) said that Congress must work to have full and timely implementation of existing trade agreements and should continue to work for reductions in remaining barriers to U.S. agriculture exports.

CALIFORNIA HOME SALES STRONGLY OUTPACE NATION IN 1997

A report released Wednesday by the California Association of Realtors (CAR) found that home sales and home values in the golden state outpaced the rest of the nation in 1997. According to CAR, home sales in California increased 9.9 percent -- from a total of 505,420 in 1996 to 555,380 in 1997. Median home prices in the state also rose -- from $177,270 to $186,490 over the same period, a 5.0 percent increase. These state increases compare to national rises of 3.1 and 5.0 percent respectively, according to a similar study by the National Association of Realtors.

In a separate report by CAR covering more localized data, two-thirds (214 of 321) of the state's cities and communities were shown to have increased in median home price. Communities with the highest priced homes were: Hillsborough, $1,097,500; Atherton, $925,000; Monte Sereno, $874,500; Woodside, $840,000; Saratoga, $729,500; Belvedere/Tiburon, $703,500; Los Altos, $660,000; Beverly Hills, $660,000; Palos Verdes Estates, $659,750; and Pacific Palisades, $658,750.

Santa Clara County achieved notoriety by surpassing Honolulu as the most expensive in the nation. Its $316,250 level exceeded Honolulu, which fell to $307,000 due to Asian investment pullouts.

Also notable is that the Southern California area is a strong participant in the most recently reported upturn, with many areas reporting double-digit increases.

To access detailed information on the California Association of Realtors' report, visit their website at:

<http://www.car.org./economics/archives/dataqtr497pr.html>

CHI TO GIVE BIOMEDICAL BRIEFING IN WASHINGTON ON FEB. 25

The San Diego-based California Healthcare Institute, which represents more than 175 biomedical organizations, will hold a media and Congressional briefing in Washington D.C. on February 25 to release the California Biomedical Resource Directory and describe the importance of biomedical R&D to the state's economy as well as how research investment translates into the commercial arena. For information on the event, contact Molly Ingraham at 619-551-6677.

DOE SECRETARY ANNOUNCES IBM CONTRACT FOR LIVERMORE SUPERCOMPUTER

During a speech today in Washington, Secretary of Energy Federico Pena announced the signing of an $85 million contract between DOE and IBM to build an ultra-high-speed supercomputer for the Lawrence Livermore National Laboratory. The IBM RS/6000 SP is to be capable of 10 trillion calculations per second ("tera-flops"). It is the third in a series of five increasingly fast computers built in DOE's Accelerated Strategic Computing Initiative (ASCI) program, which is charged with creating computers of 1, 3, 10, 30, and 100 tera-flops. One use of the computer will be as a component of Lawrence Livermore's mission to ensure the safety and reliability of the nation's nuclear weapons stockpile without nuclear testing.

MULTI-STATE EFFORT FOCUSES ON VALUE OF CALIFORNIA AND OTHER BASES

Military installations in California, Arizona, Nevada, New Mexico, and Utah are not only important freestanding entities in their own right, but should also be viewed as an integrated whole, according to supporters of the Southwest Defense Alliance.

A byproduct of the 1995 base closure round was an increased focus on interservice activities -- activities which combine and integrate the resources of the several military branches. One approach under consideration has been the consolidation of a major portion of aircraft and air launched weapons research, development, testing and evaluation at installations in the Southwestern United States -- including at the Air Force Flight Test Center at Edwards Air Force Base, the Naval Air Warfare Centers at China Lake and at Point Mugu, and the White Sands Missile Range in New Mexico.

When combined with the broad testing and training capabilities in the region -- which include Fallon Naval Air Station in Nevada, the Naval Training Center at California's Fort Irwin, Nellis Air Force Base in Nevada, Vandenberg Air Force Base in Lompoc, the Marine Corps Base at Twentynine Palms, the Utah Test and Training Range, and the Army's Yuma Proving Ground and Marine Corps Air Station in Yuma, Arizona -- the Southwest Defense Complex offers a nearly contiguous range of defense assets for use in concurrent RDT&E and training capacities. The southwest complex addresses the National Defense Panel's call for jointness and represents what many feel is the best alternative to reduce DOD infrastructure, save money, and preserve research, development, test, and evaluation capability.

Supporters of the Southwest Defense Complex were discussing the concepts with colleagues on Capitol Hill this week, and plan to hold more formal discussions later this year. Last June, half of the bipartisan California Congressional Delegation joined with members from other states in writing Defense Secretary William Cohen to urge the consolidation of ranges and labs in the Western U.S.

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=================== ATTACHMENT 1 ===================
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 id <01ITIHTVV60000HM86@PMDF.EOP.GOV> for CAPLAN_P@a1.eop.gov; Fri,
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 id XAA08798; Thu, 12 Feb 1998 23:39:50 -0500 (EST)
X-Sender: ransdell@calinst1.calinst.org
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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Shiresikes (Shiresikes@aol.com@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:22-FEB-1998 18:05:00.00

SUBJECT: For the morning memo

TO: Brian A. Barreto (Brian A. Barreto@eop [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Student Loan Interest Rate: The meat of a possible POTUS or VP statement

would

be: "President Clinton today asked Congress today not to deny college

students

a cut in the interest rate on government-backed loans which would save an

average borrower more than [$1200]. The lower rate -- due to take effect

on

July 1 -- has come under fire from banks who say it is not profitable

enough

[An AP story cites Sallie Mae hiring former congressmen to help stop the

rate

cut]. But a Treasury Department study released today indicates that

Congress

could address the lenders' concerns "at little or no net cost to students."

The President also asked Congress to support his plans to streamline the

loan

programs so that up-front fees can be eliminated for some students, saving

them an additional $X." A statement could start with something echoing

Republicans' concerns about college costs, but then going further to challenge

them to help by keeping the student loan rate low.

School Construction: The bill is ready for Mr. Rangel to introduce. You

should tell me Monday a.m. if we want him to hold it for any particular

day.

(I am trying to set up an endorsements briefing for groups with you, but

that

may not precede introduction). Sen. Moseley-Braun would like to introduce

on

Thursday, if possible (which means Rangel might want to do it on

Wednesday).==================== ATTACHMENT 1 ====================
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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ITVZ5AN5QO005MKT@PMDF.EOP.GOV>; Sun,

22 Feb 1998 17:06:16 -0500 (EST)
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22 Feb 1998 17:05:43 -0500 (EST)
Received: from Shiresikes@aol.com by imo13.mx.aol.com (IMOv12/Dec1997)
id FVURa28805; Sun, 22 Feb 1998 17:05:39 -0500 (EST)
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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:25-FEB-1998 19:12:00.00

SUBJECT: Interest Rate Dilemma -- next chapter

TO: Daniel I. Werfel (Daniel I. Werfel@eop [UNKNOWN])
READ:UNKNOWN

TO: Daniel J. Chenok (Daniel J. Chenok@EOP [UNKNOWN])
READ:UNKNOWN

TO: S. A. Noe (S. A. Noe@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Attached is a PDF file (you'll need to download Adobe Acrobat Reader, from the URL below, to read this document if you don't have Adobe Acrobat Reader software already on your hard drive) of the report from the U.S. Treasury, released by VP Gore this morning, titled THE FINANCIAL VIABILITY OF THE GOVERNMENT-GUARANTEED STUDENT LOAN PROGRAM.

This report is an analysis of the student loan interest rate debate taking place in the higher education community and the lending community that provides capital for federal student loans. The Clinton administration is proffering a solution to the problem by suggesting changes that will increase the profitability to lenders in an effort to keep a variety of lenders involved in the FFEL program. The increase in the interest rate (over the one that will occur July 1, 1998 under the current law) to students under this proposal would be minimal in the short run, the report states. It appears to eliminate the separate rates for the "in-school" period and the "in repayment" period and to put in place an overall interest rate that would apply to both periods.

This afternoon, both Congressman Goodling, Chair of the Committee on Education and the Workforce, and Congressman McKeon, Chair of the Subcommittee on Postsecondary Education, Training, and Lifelong Learning, issued statements outlining their intentions to provide alternative solutions to this problem. Congressman Goodling's statement concluded, "We will review the Administration's proposal in short order, and we expect to have one of our own soon."

The attached report from the Treasury includes the Administration's proposal to keep private sector capital available in the FFEL program. There is no scoring of this proposal at this time, but costs associated with the plan are expected soon.

Adobe Acrobat reader for pdf files:

http://www.adobe.com/prodindex/acrobat/readstep.html

==================== ATTACHMENT 1 ====================
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X-Sender: ncoolidg@popserv.ucop.edu
X-Mailer: QUALCOMM Windows Eudora Pro Version 3.0.5 (32)
X-Priority: 2 (High)

================== END ATTACHMENT 1 ==================

==================== ATTACHMENT 2 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

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================== END ATTACHMENT 2 ==================

The Financial Viability of the Government-Guaranteed Student Loan Program
Executive Summary

The current student loan formula, which sets the ceiling rate for the government-guaranteed student loan program and also for the direct loan program, is based on the bond equivalent yield for 3-month T-bills plus a spread of 2.5 percentage points for loans to students who are in school, and a spread of 3.1 percentage points for loans that are being repaid, with the rate reset annually for borrowers. The rate that the student pays on loans is capped at 8.25 percent and the Government pays any excess above this rate in the form of a Special Allowance Payment (SAP); SAPs also reimburse lenders on a quarterly basis for increases in the index interest rate within the year.

The Student Loan Reform Act of 1993 (SLRA) scheduled a change in the formula determining the rate that borrowers would pay for new student loans finalized beginning July 1, 1998. The SLRA requires that lenders' gross yield on new loans be based on "the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education", in consultation with the Secretary of the Treasury, plus 1.0 percentage point, with the rate reset every 12 months. For the purposes of the government credit budget, the comparable maturity would be a 10-20 year average annual rate (simple interest). However, most observers have assumed that the comparable maturity that will be chosen will be the 10-year Treasury constant maturity yield.

Lenders under the guarantee program (Federal Family Education Loans, or FFEL) are concerned that loans under the new formula will not be profitable. Part of the reason is the cut in the markup from 2.50/3.10 percentage points over the benchmark rate to 1.0 percentage point; in today's interest rate environment, this results in a large implicit reduction in the interest rate on student loans. In addition, structurally, the move from a system which closely matches interest flows to financing costs (both short-term) to one which imposes a timing mismatch (with interest flows tied to a long term rate) exposes lenders to a new risk, with resultant costs and uncertainties.

This paper provides estimates of lenders' costs (including servicing, default and pre-payment costs as well as cost of funds) and of the return from student loans, under the current student loan formula and under the formula scheduled to become effective on July 1, 1998. We also provide an estimated range for the "target" rate of return on assets to which this return will be compared by banks deciding whether to participate in this program. Although we recognize the diversity of participants in student loan origination, our analysis is focused on large, for-profit bank originators. These institutions span the markets in which other lenders operate, and reflect the continuing consolidation of loan volume into larger lenders. Our estimates of costs and target rates of return reflect this choice of focus. We have based our analysis on a review of the existing literature, financial data from loan originators, and discussions with many experts in this area.

Our results show that under the current formula, lenders are earning a pre-tax rate of return on student loan assets that exceeds a reasonable range of assumed target rates. Switching to the scheduled student loan formula would reduce lenders' net return to a level below this target range. Such a reduction need not imply an immediate crisis in the market for guaranteed student loans, but it could be problematic for lenders in the longer term.

We also consider the implications of moving back to short-term T-bill interest rates as a basis for determining the student loan rate while holding borrowers harmless -- i.e., pegging the student loan rate at the same level as it would be under the new formula. We find that pursuing this approach for next year would result in a return to banks that is slightly below the range of estimated target rates of return on assets; but, averaging over the next five years, such an approach can meet the lower end of this target range.

Our analysis may be summarized in the following points. First, the new formula will provide a rate of return on student loans that is below the target rate of return of for-profit bank lenders in the government-guaranteed student loan program, under current financial market circumstances. Second, there are inefficiencies associated with the mismatch of (long-term) student loan interest rates and (short-term) bank financing under the proposed formula, and joint benefits could be realized to students and lenders from moving back to a short-term index. Third, an alternative rate setting formula that has been suggested by some, linked to a short-term rate, would maintain bank participation in the government-guaranteed student loan program at little or no net cost to students, relative to the formula now scheduled to become effective in July. Fourth, preserving the existing differential between the mark-up for loans while the student is in school and loans during the in-repayment period would better track gross returns to costs.

Our confidence in the qualitative conclusions of the following analysis is high. Nevertheless, the uncertainties involved in this exercise point out the difficulties with regulatory determination of student loan interest rates. An alternative approach would be to use a more market-based mechanism for determining these rates. For the student loan program, this could mean using some form of auction system to determine who would receive the rights to originate student loans. The successful experience of the Health Education Assistance Loan (HEAL) program using an auction system for allocating the insurance authority for HEAL loans suggests that some form of auction could be considered for the Federal Family Education Loan program.

THE FINANCIAL VIABILITY OF THE GOVERNMENT-GUARANTEED STUDENT LOAN PROGRAM

Introduction

The current formula for calculating student loan interest rates -- the ceiling rate for government guaranteed loans and the rate on the direct loan program -- applies to new loans made between July 1, 1994 and June 30, 1998. Under this formula, lenders receive the bond-equivalent yield of 3-month T-bills[1] plus 2.5 percentage points for in-school loans and loans in deferment, or the 3-month T-bill rate plus 3.1 percentage points on loans in repayment. Loans are reset annually for borrowers, with an 8.25 percent cap on the borrower's rate. A lender of guaranteed loans receives a Special Allowance Payment (SAP) in any quarter in which the average rate for 3-month T-bills auctioned during the quarter plus 2.5/3.1 percentage points is greater than the borrower's interest rate (either the formula interest rate established at the last annual re-set or the cap of 8.25 percent). The SAP is the difference between the quarterly re-set rate from the formula and the rate the student pays, divided by four (for a quarterly payment).

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[1] As used hereafter, the terms 3-month T-bills or T-bills, and 10-year Treasury notes (CMTs) refer to the bond equivalent yield for such securities or securities of that constant maturity.

The Student Loan Reform Act of 1993 (SLRA) scheduled a change in the formula determining the rate that borrowers would pay for new student loans finalized beginning July 1, 1998. The SLRA requires that lenders' gross yield be based on "the bond equivalent rate of the securities with a comparable maturity as established by the Secretary of Education", in consultation with the Secretary of the Treasury, plus 1.0 percentage point, with the rate reset every 12 months.[2] For the purposes of the Federal Budget and credit budget scoring, the comparable maturity would be a 10-20 year average annual rate (simple interest).[3] However, most observers have assumed that the comparable maturity that will be chosen will be the 10-year Treasury constant maturity yield. This yield is a commonly used benchmark in financial markets, is within the appropriate maturity range, is regularly published in official sources, and is forecast in private as well as government budget analyses. Based on the assumption for either of these rates, the formula change for next year would reduce the loan rate to borrowers, relative to the rate they would pay under the current formula.[4] As noted later in this paper, in all likelihood the formula change also would reduce the net return to lenders.

The cost to a borrower for a student loan includes more than the interest on a student loan. The Federal Family Education Loan (FFEL) program authorizes lenders to collect from borrowers an origination fee (currently, 3 percent of the loan principal borrowed). which is paid to the Federal Government, and an insurance premium (no more than 1 percent), which is paid to guaranty agencies. These one time fees, which are intended to offset the Federal subsidy costs and to defray default costs, are disbursed to the Government and guaranty agencies at the same time as the loan is disbursed to the student. The Administration's current budget proposal would cut the total fees charged to students to three percent, and phase out origination fees altogether for needy students.

In principle, the legislated interest rate is a ceiling, below which lenders can compete to offer the most attractive interest rates to students. In practice, direct price competition of this

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[2] The change in the formula for 1998 and subsequent years evolved late as the SLRA of 1993 went through the Congress, with the intention of reducing the loan interest rate charged students and of tying the interest rate on student loans to the discount rate that the Treasury Department charges the Department of Education for budget scoring purposes. If the 10-year CMT is used as the long-term index, the new formula would have been expected, given the economic assumptions of the FY94 Budget, to have saved students about 60 basis points of interest in the 1998/9 school year. The second motivation for this change has become irrelevant, as budget scoring for credit programs is soon to be changed to the "basket of zeros" approach.

[3] This simple interest rate is the average semi-annual coupon payment on all bonds of 10-20 years of maturity, annualized, divided by the average market price of these securities.

[4] A lower loan rate for students in 1998-99 depends on market interest rates being at a level where the 8.25 percent cap is not in effect. If the cap were in effect, the student loan rate would not be affected by the new formula.

form has been very limited. (One form of this limited competition is some absorption by the lender of some of the borrowers' fees just mentioned. This is done to a limited extent on a school by school basis; no estimates are available of the prevalence, or cost to lenders, but it seems likely to be fairly small.) Many schools have "preferred provider" lists of lenders to whom they direct students and these lists seem to play the dominant role in students' choices[5]. Competition to be on such a list takes place largely in terms of services -- mostly to the schools themselves -- rather than taking the form of direct price competition, and there is considerable variation among schools in their procedures. At some schools, for instance, preferred providers may have other connections to a school and its community, and offer nothing more than customer-relations at the bank; at other schools, however, competition may be keen among providers to offer quick payments to schools, ease in billing, and assured follow-up on delinquencies. Lenders may send representatives to campuses at enrollment time to help with loan processing, may coach students on loan consolidation options, and may provide the school with substantial computer support for financial processing. There appear to be substantial economies of scale in basic loan servicing and it may, therefore, be worthwhile for large servicers to expend additional resources on essentially promotional activities. (As will be noted below, our cost estimates have not attempted to capture such promotional costs.)

Overall, it appears that for a top tier of schools that are attractive to major national lenders, the loan market is "imperfectly competitive" with loan providers likely able to establish reputations and maintain market share for a time at prices above a purely competitive level. For this tier, however, it is likely that the drive to maintain market share and realize economies of scale at least assures effective competition in service provision. For schools relying on local providers, even service competition may not be very effective, and local loan providers may well be able to obtain extra returns from sale of loans in the secondary market as they reach the "in repayment" stage where scale economies for servicing become especially important. For schools whose programs lack the characteristics that appeal to private lenders, the role of not-for-profit public agencies in providing a secondary market is especially important.

Service competition among lenders has become more keen since the inception of the full-scale federal direct loan program, which does offer some directly financial incentives, particularly income-contingent repayment options. Nevertheless, although lenders are not required to charge

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[5] A financial aid officer of a large mid-western school told us that 85 percent of his students borrow from firms on his preferred provider list.

borrowers the full rate of interest authorized by the student loan formula, our understanding is that direct competition on a loan interest rate basis is rare. Direct interest rate competition seems to be viewed with unease, perhaps in part because there are strict rules against discrimination among students within a given school. More generally, price competition seems to be viewed as socially divisive -- even when, in the secondary market, loans from schools with better repayment records will sell for a higher price than loans from other schools. An important but relatively small exception is the Sallie Mae formula -- the "Great Rewards Program" -- for reducing the loan rate in repayment, based on a borrower's good payment performance over a period of time. We understand that other lenders, particularly some of the major institutions in the national market, have followed Sallie Mae's lead in this respect with similar types of incentives. (The effect of such programs on our profit calculations will be noted below.)

The new loan formula introduces another dimension of cost for lenders, because of the peculiar structure of the proposed loan contract. Under this contract, lenders would receive a return tied to a long-term yield, repriced annually (or effectively quarterly to the lender because of SAP payments), while they would presumably be funding themselves at a short-term rate, the most common among banks being LIBOR. Although the risks resulting from the mismatch between the short-term sources of borrowed funds (liabilities) for lenders and the long- term yields of student loans (assets) are mitigated by the repricing of the rate on the long-maturity asset, the remaining basis risk is notably larger than under the current loan formula with the asset return linked to a short-term rate. Starting in mid-1998, with the new formula for student loans, lenders are consequently very likely to protect themselves against the new risk by hedging the differential interest rate streams through a swap agreement.

The cost of this swap agreement will detract from the overall profitability of the loan contract from the banks' perspective. In addition, because this particular swap contract is somewhat unusual, substantially boosting the demand for such swaps could raise the cost of obtaining such swaps. More structurally, the move from a system which closely matches interest flows to financing costs (both short-term) to one which imposes a timing mismatch (with interest flows tied to a long term rate) exposes lenders to a new long term risk over the future shape of the yield curve.

Evaluating the future prospects for the net return to lenders or for those purchasing student loan contracts in the secondary market requires estimating the spread between lenders' revenues and lenders' costs. The next section describes our methodology for measuring costs.

Assumptions for Lenders' Costs

The following discussion attempts to describe the costs of a for-profit lender big enough to have achieved scale economies in its operations while both originating loans and holding loans in repayment in its portfolio. We realize that analyzing the situation for any one type of lender may not describe accurately the cost structure of all lenders or loans in this diverse market. Indeed, only 41 percent of outstanding student loans are held by banks, while not-for-profit institutions (essentially state government agencies) hold 26 percent and Sallie Mae, the currently government sponsored enterprise, holds the remaining 31 percent. Student loan originations are very much more concentrated among banks because the origination business is legally limited, with a few exceptions, to banks. Bank originators, however, range considerably in size and funding sources and may experience cost differentials depending on the parts of the student population that they most readily serve.

Our choice of focus was dictated by three considerations. The first, and most important, is trends in financial markets towards consolidation, with the implicit realization of scale economies and specializations of function. This trend has been clear in the case of student loans. The share of the top 25 originators fluctuated between 37 and 42 percent in the late 1980s but from 1990 to 1996 it rose from 42 percent to 59 percent; the share of the top 100 lenders rose from 67 percent in 1990 to 84 percent in 1996. In view of these trends, it made most sense to us to examine the part of the market where expansion has tended to occur.

Second, non-profit entities should experience similar pressures on the return from their loans as a result of the change in the mark-up in the formula over the index interest rate, and the evolution of substantially narrower spreads between long-term and short-term interest rates since 1993. In a relatively tranquil financial environment, public sector entities, which would continue to fund themselves in the tax-exempt market, might not feel that they needed to hedge the basis risk imposed by the new formula. Thus, their costs might not be as severely impacted as banks' costs in the short-term and the availability of loans from these agencies might decline very slowly -- or even increase if they moved to pick up some short-run fall out from the for-profit sector. Over time, of course, failure to hedge basis risk could prove costly for these institutions if financial markets changed abruptly. The emergence of different funding costs than anticipated could impose budget pressures on the parent state governments and, ultimately, affect the rating given by rating agencies to a public sector agency. In this respect, over the longer term, the pressures implied on the not-for-profit sector would parallel those discussed below for commercial banks.

Finally, we have chosen to focus primarily on institutions that are formally loan originators, since without origination there would be no secondary market. The lines between the primary and secondary markets are not hard, and it has become increasingly clear that the secondary market plays a very important role in allowing smaller originators to sell loans profitably at the point in their life cycle when servicing costs could become prohibitive without greater scale economies. Since there are large banks that span both loan origination and secondary market activities, however, analysis of their profitability should assure the profitability of the student loan market overall. That is, given arbitrage in the secondary market for student loans, the analysis should be the same whether banks originate and hold these loans or whether they sell them to secondary holders at a premium; if, for example, there are regular excess returns to selling over holding, there would be no banks engaged in both activities.

Of course, even the for-profit market need not be expected to respond instantly or massively to adverse changes in profitability. A 1992 study of the student loan market suggested that a 25 basis point reduction in payments to lenders could lead growth of loan volume to be about 1 percentage point lower than it would have been in the absence of the reduction, and a 50 basis point reduction could lower the growth rate by about 2 percent -- amounts that could be accommodated by the not-for-profit guarantee agencies.[6] The time period used for this report spanned a wide range of variation in the spread between interest rates on student loans and other market rates, a range that is larger than the implied effects of the July 1 formula change. On the other hand, however, this time period does not contain any policy changes with nearly the implied effects of this scheduled interest rate reduction. Banks' responses to policy changes in the structure of rates, which are expected to be permanent, might be different from their responses to cyclical swings in the yield curve.

The interest rate and cost assumptions for lenders used in our paper are shown in **Tables 1, 2** and **4** and are discussed below. **Appendix** A includes a more detailed discussion of these assumptions.

- The 1999 Budget projections for **interest rates** are shown in Table 1, along with some other projections for comparison. All of these projections suggest that the yield curve will remain relatively flat, consistent with the structure of current market rates. The projected yield curve is somewhat steeper under Administration projections for 1998 than in projections from other sources but, for 1999, the projections are more similar. Interest rate levels are projected to change rather little and the spread between long-term and short-term rates is projected to remain well below recent historical experience, consistent with a favorable inflation outlook and expectations of federal deficit reduction that adds to national saving.

- Under the new formula, the need for **hedging** affects lenders' returns. Lenders would be expected to swap -- i.e. give up -- their long-term income to obtain a short-term-index-linked income flow that would parallel their cost of funds. We talked with several major financial institutions, which provided estimates of the cost of swaps between a the 10-year constant maturity Treasury yield, reset quarterly, and LIBOR. We were unable to obtain swap estimates for the case of a 10-20 year maturity instrument, which is not currently

[6] *STAFFORD STUDENT LOANS, Lower Subsidy Payments Could Achieve Savings Without Affecting Access,* General Accounting Office, January 1992 (GAO/HRD-92-7).

traded. We therefore assume that banks swap the 10-year portion of the risk in this case, and bear themselves (at a cost) the additional variation of this particular index.

We emphasize that the swap quotes we obtained are for a contract that is currently used only to a limited extent. The market for swapping between a fixed 10-year Treasury yield and LIBOR is a deep market, but swap dealers have no natural counter-parties for a floating rate long-term yield and are likely, therefore, to need to hedge themselves on this side of the market through a basket of transactions in the spot and forward markets. The need for the swap dealer to hold one side of the contract may imply that a liquidity premium would develop in this market if the swap were demanded in volume. We assume that swaps would be available and chose a representative estimate of the costs of hedging from quotes provided to us by swap dealers.

Using this estimate of hedging costs, we translated lenders' returns from the long-term indexed formula into a short-term rate of return after the hedge. It should be noted that the cost of these floating rate hedges are, we are told, quite sensitive to the shape of the yield curve. Consequently, our estimates of the future returns from the hedged asset are sensitive to the underlying economic assumptions, which show very little change in the shape of the yield curve by historical standards.

- The **lenders' cost of matched funds** is assumed to be the 3-month T-bill, or the 1-or-3-month LIBOR rate plus a given spread. The spread for an individual lender will depend on its size and creditworthiness and on the exact structure of the financing -- e.g., whether borrowing at a short term rate (LIBOR) or raising new funds by actually selling a package of loans in a securitization. Large lenders will move around among sources in the short-term financial markets seeking the lowest costs. In general, arbitrage will tend to keep costs fairly closely in line. For example, we obtained quotes for swapping T-bills into LIBOR, a highly liquid market in which banks do much marginal funding. These quotes (plus a slight mark-up over LIBOR) for banks' actual funding yielded roughly similar costs to those associated with typical securitizations done in the first half of last year. We have assumed a short-term funding cost in this range.

- Given the cost of funds and an estimate of lenders' return after hedging, we calculate the **net interest spread** earned on the loan asset (see Table 2).

- The **grossed-up interest spread** then allows for a small fraction of a loan asset to be counter-balanced on the balance sheet of a bank by capital rather than debt. That is, a student loan is not assumed to be 100 percent debt financed by the originator, raising the interest spread.

- **Servicing and overhead costs** (an estimate of the total seems likely to be more accurate than estimates of the separate pieces) include a share of expenses such as general management, legal, accounting, human resources, and marketing costs plus direct costs for servicing the loan such as expenses for collections, borrower correspondence, reporting and account maintenance, and filing guarantee claims. Servicing costs seem to vary among lenders depending on the size of lenders and the efficiency of their operations. Larger lenders probably are more efficient owing to economies of scale. Costs may differ also among parts of the student population depending, e.g., on whether or not the students typically complete four or more years of schooling possibly at an expensive school, thus accumulating a large total loan for given costs of billing.

- The possibility of **default** on loans in repayment also implies some small cost to lenders. Recent data suggest that default rates may be declining. The probability of default on in-school loans, and to a lesser extent loans in consolidation, generally has been small. The Federal Government pays the interest cost on a subsidized student loan while a student is in school. Most important, the Government guarantees 98 percent of a student loan, thereby reducing substantially the cost of default to the lender (currently, a borrower pays a guaranty agency a loan insurance premium of 1.0 percent of the loan amount to help defray default costs).

- Another cost for lenders is the one-time 50 basis point **origination fee** paid by loan originators to the Department of Education. This fee cannot be passed on to borrowers, who already pay a separate 3 percent origination fee to the Federal Government to help offset the cost of the Federal subsidy. In addition to this origination fee, holders of consolidation loans must pay to the Federal Government a **rebate fee**, calculated on an annual basis, equal to 1.05 percent of the loan principal plus interest, which is then added to the 50 basis point origination fee.

- Lenders offering student loans face a risk of prepayment of loans attributable to defaults, loan consolidation, and advance payments from borrowers. Prepayment reduces the life of a loan, thereby increasing the over-the-life cost of certain fixed expenses, e.g., origination support. Consequently, lenders may face a **prepayment risk** that results in a cost to them. Many financial experts, however, think that prepayment costs are not large for student loans because there is little evidence of prepayment on these loans being interest rate sensitive; the absence of interest sensitivity seems reasonable as most borrowers would have accumulated other credit with higher rates that would be more important to prepay when interest rates decline. (This absence of interest sensitivity distinguishes student loans from mortgages for which prepayment means that lenders forego a highly profitable asset in an environment where they cannot make a new loan at as high a rate.)

Table 2 provides a summary of the cost assumptions used for this paper. The two major costs for lenders are their cost of matched funds and servicing/ overhead costs. For the former, the rates are 5.85 percent (5.15 bond-equivalent average yield on the 3-month T-bill + 0 .70 spread) for 1997/98 and 5.77 percent (5.07 T-bill + 0.70 spread) for 1998/99[7]. The estimated

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[7] The interest rate assumptions are average rates for the school year starting on July 1 and

servicing/overhead cost for loans in repayment status is 95 basis points. For in-school loans, the estimated cost is one-third the cost for loans being repaid, or 32 basis points. All other costs combined are 9 basis points for in-school loans and 18 basis points for loans in repayment. The loan income for a swapped loan tied to a long-term index in 1998/99 or thereafter is assumed to reflect a swapped return of T-bill plus 1.60 if the index is 10-year CMT (given swap quotes plus the 1.0 markup over the long-term index in the new loan formula) or T-bill plus 1.77 for the 10-20 year index.

For the future policy environment, Table 2 shows two scenarios: interest rates tied the 10-year CMT rate, and interest rates tied to the 10-20 year rate. As noted earlier, the latter is the actual cost of these loans as scored in the credit budget and reflects assumptions used in the Federal budget for the overall student loan program; the former is the commonly assumed index by market participants. We compute our results using both rates throughout the report. **Table 4** breaks out the underlying costs in more detail, and shows the effects of considering, as well, loans in consolidation.

Target Rate of Return for Student Loans

The viability of various student loan formulae depends on the appropriate target rate of return for the lender for this particular asset. The ultimate criterion that a financial institution must meet is a competitive rate of return on its capital. The return on its capital and the return on its assets are related by the ratio of capital to assets.

Banking regulations in fact require that two conditions be met for capital adequacy: One condition requires a ratio of capital to *risk-adjusted* assets. The required ratio is 8 percent but recent history shows ratios well above that. The industry-wide average currently stands at around 12.5 percent, down from 13.2 percent in 1994.

Student loans have a risk weighting factor of 20 percent, meaning that in the calculation of risk-adjusted assets, student loans count only to the extent of 20 cents on the dollar. Thus, if a bank aims to hold capital equal to 12.5 percent of risk-adjusted assets, it will hold only $2.50 in capital for every $100 in student loans. Applying this capital ratio to a 20 percent target rate of pre-tax return on equity gives a target net return on assets of 50 basis points.

The second requirement (the leverage ratio requirement) is for a minimum amount of

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are from the Administration's FY1999 Budget.

capital equal to 4 percent of assets regardless of risk weight. As with the risk-based capital standard, banks have tended to have more than required capital in recent years (the average ratio has been above 7 percent). Although these years may mark an historically peculiar period, it is important to note that to achieve standing as a "well capitalized bank" (which 98 percent of banks now have), capital must be at least 5 percent of assets without risk weighting.

Clearly, banks' circumstances may vary considerably with a bank having excess capital after an exceptionally profitable year permitted large retained earnings, and vice versa. Some banks may be bound at times by one capital requirement and, at other times, by the other required ratio. For a low-risk loan category, however, it seems more likely that the target for overall capital would be controlling rather than the risk-based standard. Some financial market participants (non-bankers) share this view.

If banks had a target rate of return on capital of 12 percent (after-tax, or 20 percent before-tax) -- about the average since 1970 -- a 5 percent target capitalization, on the margin, for fairly safe assets would imply a target return on those assets of 1 percent before tax. Note that this is considerably below the average return that banks have been receiving on their overall portfolios during the recent period of high bank profits. Alternatively, if banks had a target rate of return after-tax of 13.7 percent, the average for the last five years for the 10 largest banks, and a target capitalization of 5 percent, their target before-tax rate of return on assets would be 1.15 percent. With a target rate of return of 12 percent and only 4 percent capitalization, their target rate of return on assets before-tax would be 80 basis points. Alternatively, if banks viewed student loans more as "loss leaders" for community relations and future business, they might accept an after-tax rate of return of about 10 percent with 5 percent capitalization, also implying about 80 basis points as a minimum before-tax target return on these assets. We believe that these assumptions span a relevant range for assessing the prospects for returns to student loans. Thus, *we use a range of estimates for our target pre-tax rate of return on assets of 80 to 115 basis points.*

We recognize that efficient lenders could choose to operate at the margin with lower capitalization, generally meeting the risk-based standards with more differentiation in the assumed capitalization and target rates of returns across types of assets in their portfolios. Whether enough banks would, in fact, be willing to make such fine distinctions with regard to asset categories that were only small parts of their total portfolios (in the aggregate student loans are only about 2 percent of banks' assets) is an open question. Assuming an excessively high capitalization in estimating banks' target rate of return implies giving the banks a subsidy in the student loan formula. On the other hand, assuming an unrealistically low capitalization and target rate of return would imply eventual exodus of lenders from the industry. We have chosen a middle ground by using the overall leverage ratio requirements, but by relying on the minimal regulatory level of those requirements, and not the current (much higher) average level of capitalization. But we recognize the potential efficiencies that could emerge, and the resultant lower target rate of return, if loans were concentrated in institutions with lower marginal capitalization requirements.

Our choice of a reasonable range of target returns can be interpreted relative to two frames of reference. The first is the current rate of return to the banking sector. The average pre-tax return on all bank assets (averaged across all banks) was roughly 1.75 percent over the 1993-96 period (latest available comprehensive data). Most analysts with whom we spoke noted that a government-guaranteed asset with a fairly stable interest rate and cash flow profile should receive a pre-tax return below 1.75 percent, although they did not present firm frameworks for determining how much below average a student loan return should be. Indeed, the facts on risk and non-risk adjusted capitalization presented above imply most bank assets are much riskier than student loans, and therefore require a much higher capitalization and return. Thus, it is reasonable to assume that the target rate of return on student loans is much lower than the current average return on assets.

The second criterion for judging the target rate of return is the rate of return on alternative, comparable, assets. A 1997 paper by the CRS[8] on the student loan program presented estimated returns on a couple of alternative assets as a frame of reference for judging returns on student loans. This approach keys on the idea that no profit-maximizing bank would allocate part of its portfolio to an asset that was dominated by other available assets. CRS estimated returns on Ginnie Mae securities[9] at 1.20 percentage points and estimated the return on adjustable-rate mortgages to be 1.25 percentage points; these rates are slightly above the upper end of our range of target rates of return. Although this is an attractive approach in principle, it runs into important difficulties in practice. The usefulness of the CRS estimate of the adjustable-rate mortgage return for comparison may be questioned because it does not take account of "teaser rates," which have become a very important feature of this market and could significantly lower the rate of return. The Ginnie Mae comparison also may be problematic because the spread between yields on this instrument (even after adjustment for systematic prepayment risks) and other open market rates such as Treasuries appears to be quite volatile. These instruments are held by banks in their investment portfolios more for trading purposes than for holding in their long-term loan asset portfolios.

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[8] Barbara Miles and Dennis Zimmerman, "Reducing Federal Student Loan Costs: The Options are Narrowing," Congressional Research Service, February 25, 1997, p. CRS-5.

[9] These are marketable securities backed by pools of government guaranteed or insured mortgages; these securities are considered to be quite liquid in an active secondary market.

Summary Results and Some Empirical Evidence

As shown in **Table 2**, our estimate of the pre-tax weighted net return to lenders in 1997/98, for in-school loans and loans in repayment, is about 1.63 percent. It appears that, under the current student loan formula, lenders are earning more than their targeted rate of return on assets for student loans. Student loans, however, may yield a slightly lower rate of return than the average return in recent years on banks' total portfolios.

As noted above, this return does not allow for discounts from the maximum student loan rate that banks may charge. For example, Sallie Mae offers a "Great Rewards Program" that allows borrowers who have made 48 consecutive loan payments on time a 2 percentage point discount of the loan rate. Other lenders have similar concessions. For Sallie Mae, the discount translates to about a 10-15 basis point reduction in return for their entire portfolio.[10] If this discount is the competitive standard for the industry, then banks' net returns are actually 1.48 to 1.53 percent after the cost of the discounts. We also did not allow for costs of marketing and promotional activity that would further reduce lenders returns.

On the other hand, this return also does not consider the fact that the interest rate for loans to parents (PLUS) is higher than the current rate for subsidized student loans: this rate is the one-year T-bill rate plus 3.1 percent, which is currently about 100 basis points higher than the rate for subsidized loans. This differential will be reduced somewhat by the costs of hedging this one-year instrument into a shorter term instrument, but it nevertheless provides excess returns to banks who are providing both subsidized and PLUS loans. Since PLUS loans are roughly 10 percent of loan volume, this implies at most a 10 basis point increase in net returns for the average bank, so it once again does not greatly affect our calculations.

In addition, we do not consider in our basic calculations the effect of loans in consolidation, although these are examined in some detail in Table 4. Until recently, the loan interest rate for loans in consolidation was the weighted average of the interest rates on all outstanding loans being consolidated, rounded up to the nearest whole percent; this figure is currently 9.0 percent. Under this system, the net return on loans in consolidation roughly mirrors the average return on loans in-school and in repayment. The future of net returns on loans in consolidation is unclear. Under the Emergency Student Loan Consolidation Act, passed in October, 1997, the rate for consolidation loans will be the T-bill rate plus 3.1 percent until October, 1998 (capped at 8.25 percent). We assume that when the LCA expires, the formula for determining consolidation loans will revert to its previous form. This results in a return to

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[10] Sallie Mae estimates that on the basis of current experience, less than 20 percent of borrowers qualify for a discount under these terms.

consolidation which is much higher than the return to loans in-school or in repayment under the scheduled interest rate change, raising the overall average return to banks under the new system by 12-14 basis points.

The financial statements for 1996 for two major student loan originators are very consistent with our estimates. For one wholly student loan subsidiary, the annual pre-tax rate of return for 1996 was 1.65 percent; for another bank, their internal calculation of the implied rate of return to their student loan department was 2 percent. For the first bank, partial data for 1997 indicates a reduction in the rate of return to about 1.3 percent. The decline in returns for 1997 likely reflects, in part, the fact that the structure of interest rates in the short-term market became less favorable to lenders for a while last year than our assumptions allow. In particular, the Treasury bill rate, to which the short-term cost of funds is pegged in the assumptions used to analyze the current formula, tended to decline relative to other short-term rates (such as LIBOR) during the past year. In this situation, our assumptions may under-estimate the cost of matched funds for lenders. But this phenomenon appears to have been a temporary initial reaction to the financial disturbances in Asia (a "flight to quality"), and more recent data suggest that this trend has been reversed. We have therefore assumed that banks will continue to be able to fund in a variety of markets with the spreads among rates similar to those that prevailed in the earlier part of 1997, before the Asian difficulties emerged.

Another source of profit data is Sallie Mae. Of course, this secondary market agency is not a loan originator, but its joint ventures and pre-purchase agreements bring it close to the origination market. Its rate of return on assets for 1997 (from partial data once again) is similar to that reported above for the student loan subsidiary: 1.2 to 1.3 percent. Their slightly lower return than our calculation may reflect, in part, premiums that it pays on loans acquired in the secondary market rather than aspects of its costs that are directly relevant to originators. Furthermore, its rate of return on capital is much higher than would be implied for banks because, as a Government Sponsored Enterprise, Sallie Mae can operate now with a lower capitalization. Thus, for the present, it too seems to be earning at least an adequate rate of return. In the future, Sallie Mae can be expected to continue to operate a high-volume, low-margin activity as long as costs in the market for securitizations permit it to move a considerable volume of assets off its books fairly quickly. Sallie Mae's situation will change in an important respect, nonetheless, because of its transition to privatization. As a private entity, the holding company can be expected to be required by credit rating agencies to have higher capitalization than it now has; this will be relevant for its required return on assets which could become somewhat more similar to that of banks.

The return to lenders would fall significantly if the new student loan formula were changed from the 3-month T-bill rate plus 2.5/3.1 percentage points to a longer rate (either for 10-year Treasury notes, or to 10-20 year interest rates) plus 1.0 percentage point, in part because of the new risk associated with this change which raises the all-in cost of funding as a result of hedging. **Table 2** shows that switching to the new student loan formula for loans in-school and in-repayment could reduce the weighted average pre-tax return to lenders from 1.65 percent under the current formula in 1997/98 to 0.38 percent to 0.55 percent under the new formula next year, if the 1999 Budget assumptions are borne out. These estimates, if correct, would be below the minimum target rate of return on assets for lenders.

It may be noted, however, that these findings are somewhat sensitive to substantial interest rate movements within a year, i.e., between the time (end of May) when the student loan rate is determined by formula and the time when a lender actually makes a loan and finances it. For example, if the new formula were in place for the current school year, using the 10-year CMT rate, the net return on assets for student loans in-school and in- repayment would be 1.1 percent. This is in the range of providing a satisfactory rate of return. However, this rate of return would have been achievable only because yields fell significantly after mid-1997, lowering the cost of funds relative to May of 1997 when the formula sets the student loan rate.

The fact that the yield curve is projected to be so much less steep than historical experience is the primary reason that the change in formula leads to low rates of return on assets. Adjusting the data for the years when the loan formula rate exceeded the 8.25 percent cap on the student loan interest rate, the 10-year rate plus 1.0 percentage point has been less than the 3-month T-bill rate plus 3.1 percentage points by an average of only 30 basis points since the early 1960s. The 1999 Budget assumptions project this difference to be 137 basis points in 1998, 131 basis points in 1999, and 121 basis points from 2000 through 2007 (with the T-bill based index higher); other projections have a similar contour. As noted above, swap dealers have documented to us that the interest spread for student loans tied to a long-term index (with an quarterly reset) would be very sensitive to the yield curve; that is, with the historically much steeper yield curve, banks would have earned a much higher profit on their student loans.

This historical pattern documents the difficulties with tying student loan interest rates to a long term index, when banks finance themselves on a short-term basis. This approach introduces a substantial risk into the banks portfolio, with two resultant costs. The first is the non-trivial hedging costs of mitigating this risk by swapping a given loan. The second is the long term, unmitigated risk that lenders face as the yield curve changes. The difficulty of using a long-term index for student loans should be considered in light of the joint uncertainties for students and lenders that is implied by the experience between 1993 and 1998. The slope of the yield curve is notoriously uncertain; mis-judgements about it played a major role in problems of the thrift institutions decade ago. Making the profitability or the availability of guaranteed student loans dependent on such uncertainties seems to many to entail risks for both the users and the providers of student loans.

Regardless of this point, however, it is fairly clear that given average non-interest costs (averaging across in-school and in-repayment) of 87 basis points, a 100 basis point mark-up of the student loan rate over an index rate leaves very little room for profits except under favorable spreads between long-term indexed income and short-term indexed borrowing costs. And, as **Table 3** illustrates, this point is true looking forward over the next five years of projected interest rates as well. The first rows of Table 3 show that the rate of return to the banks would remain high if the current system were maintained. But the next rows show that the rate of return under the new legislation will remain below the target rate into the future as well as in the current environment.

Returning to a T-bill Index

The results in **Tables 2 and 3** imply that lenders will not receive a reasonable estimate of their target rate of return in the government-guaranteed student loan program if the scheduled change of formula takes place this July. As shown in Table 3 (second block of rows), the five year average return under the new formula would be 34-53 basis points, given the administration's economic assumptions. It should be noted that there is some variation in returns from one student loan year to the next in the table that arises largely from projected changes in the level of interest rates within each year; as noted above, in a year when the cost of funds falls relative to the level of interest rates in the second calendar quarter, which sets the student loan rate, the student loan becomes more profitable for the lender.[11]

Some have suggested an alternative formula, which would hold borrowers harmless so that the total cost to a student next year would be no higher than under the new formula. Holding borrowers harmless over the next year would require that the student loan interest rate for 1998/99 is reduced to 3-month T-bill plus 1.73 percent to T-bill plus 1.98 percent, depending on whether the 10 year or 10-20 year rate is used (see **Table 3**). This appears to provide returns to lenders, in the range of 50-75 basis points, which fall just below their target rate of return. But, averaging the 10-20 year rate over the coming five years, the rate which holds borrowers harmless rises to T-bill plus 1.83 percent to T-bill plus 2.11 percent. The latter figure provides a rate of return which meets the lower bound of the range of target rates of return.

Another possible formula would involve allowing lenders the minimum rate of return that would make student loans profitable according to a target rate of return criterion. We calculate that the loan rate under this approach would range from T-bill plus 2.1 percentage points to T-bill plus 2.45 percentage points (corresponding to a target rate of return on assets of 80 to 115 percentage points); this uses the second quarter interest rate for each year to set the appropriate markup. All of these loan rates would be somewhat higher than would prevail under the formula now scheduled to go into effect at mid-year. Any of the rates would represent, however, a significant reduction in the cost relative to the current system (roughly 45-80 basis points from the

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[11]For example, note that from 2000/01 to 2000/02, the spread between the 91 day and 10 year rates is unchanged, while the rate of return to banks falls by 5 basis points. The reason for this seeming discrepancy is that short-term interest rates are projected to be falling after the second quarter of 2000, boosting lenders' profitability in that year. Interest rates are projected to be flat after the second quarter of 2001, so that bank profitability is lower. Thus, movements in interest rates after the second quarter can affect bank profitability, even while constant year-year second quarter interest rates imply the same rate to borrowers.

current markup of 2.9, using a weighted average of the rates in-school and in repayment).

While the discussion thus far has been phrased in terms of a single markup over the interest rate index, our research has confirmed the significant differences in lenders costs for loan in-school and in-repayment, as is recognized by the current 60 basis point differential. Continued recognition of these cost differences in the formula setting returns would help to even out returns across types of lenders. For example, the "hold students harmless" alternative described above, based on the five year average of the 10-20 year Treasury rate, could be expressed as a rate of T-bill plus 1.7 percent for loans in-school, and T-bill plus 2.3 percent for loans in repayment. This would yield the same weighted average markup over T-bills, but would reflect underlying cost differences in servicing these two types of loans.

Market-Based Mechanisms

The uncertainties involved in this exercise points out the difficulties with regulatory determination of student loan interest rates. An alternative approach would be to use a more market-based mechanism for determining these rates. For the student loan program, this could mean using some form of auction system to determine who would receive the rights to originate student loans.

One form of auction could be a single price (interest rate) auction for amounts of guaranteed loans to be originated. With this type of auction, bids would be accepted in rank order from the lowest to the highest (interest rate) until the total target quantity of new student loan originations, as estimated by the Secretary of Education, had been awarded. The maximum interest rate that all successful bidders could charge would be the rate for the last bid accepted. Lenders submitting this bid would receive the rights to originate the amount of loans on which they bid. All others bidding a lower rate than the marginal bid also would obtain the right to originate their proposed amount of loans but could charge a rate on these loans up to the maximum rate set in the auction. Some successful bidders could receive a return -- if they charged the maximum rate -- that would be more than they need to originate their share of the total loans. Competition should assure that this differential would be small, however, because lenders would not want to submit a bid price much higher than they need, otherwise they could fail to obtain any of the rights to originate student loans.

The experience of the Health Education Assistance Loan (HEAL) program suggests that such an auction can work. HEAL is a federally-insured loan program for graduate students in schools of medicine and other health professions. The interest rate for both borrowers and lenders is reset quarterly, but rates on HEAL loans are capped at the rate for 3-month T-bills plus 3.0 percentage points. Since FY 1993, there has been an auction system for allocating the insurance authority for HEAL loans and the interest rate spread over the T-bill rate has been well below the cap and declining every year. The lowest rate bid in the first auction was T-bill plus 2.4

percentage points. For the most recent auction in February, 1997 (for the school year 1997/98), the successful bid was T-bill plus 1.5 percentage points.

The success of the HEAL auction, however, does not necessarily imply that an auction will guarantee large savings for FFEL. The successful bidders for the HEAL program, in the latest round, have been not-for-profit State agencies, although Sallie Mae won a larger share of the market in earlier rounds. As such, their debt is not taxable, which allows them to borrow at rates that are well below the cost of funds for others who are not exempt from taxes. If an adjustment is made for the difference between the interest rates for a tax-exempt and a taxable security, the effective student loan interest rate might not be much, if any, different between the HEAL and FFEL programs. Moreover, the HEAL program involves only $85 millions currently and probably less than $400 million if an authorization/appropriation is enacted by next fall. The experience with this small program may not be completely transferable to a $20-25 billion program that has a 98 percent guarantee rather than 100 percent and whose borrowers are more diverse and do not have the same risk characteristics as HEAL borrowers.

Concluding Remarks

The results presented in this paper rest on a number of assumptions about the cost structure of the student loan program, projections of the term structure of interest rates and the costs of hedging loans tied to long-term interest rates, and estimates of the target rate of return for lenders. These results therefore have a degree of uncertainty that is not necessarily reflected in our tables. Nevertheless, most of our conclusions are fairly robust to variations in assumptions.

Our analysis may be summarized in the following points. First, the new formula will provide a rate of return on student loans that is below the target rate of return of for-profit bank lenders in the government-guaranteed student loan program, under current financial market circumstances. Second, there are inefficiencies associated with the mismatch of (long-term) student loan interest rates and (short-term) bank financing under the proposed formula, and joint benefits could be realized to students and lenders from moving back to a short-term index. Third, an alternative rate setting formula that has been suggested by some, linked to a short-term rate, would maintain bank participation in the government-guaranteed student loan program at little or no net cost to students, relative to their expectations about the formula now scheduled to become effective in July. Fourth, preserving the existing differential between the mark-up for loans while the student is in school and loans during the in-repayment period would better track gross returns to costs.

Our confidence in the qualitative conclusions of the following analysis is high. Nevertheless, the uncertainties involved in this exercise point out the difficulties with regulatory determination of student loan interest rates. An alternative approach would be to use a more market-based mechanism for determining these rates. For the student loan program, this could mean using some form of auction system to determine who would receive the rights to originate student loans. The successful experience of the Health Education Assistance Loan (HEAL) program using an auction system for allocating the insurance authority for HEAL loans suggests that some form of auction could be considered for the Federal Family Education Loan program.

TABLE 1: INTEREST RATE ASSUMPTIONS
(Percent)

Source	1997	1998	1999	2000	2001	2002	5-yr. ave.
OMB ('99 budget)							
3-month T-bill	5.17	5.13	5.01	4.91	4.81	4.81	4.93
10-year note	6.75	5.86	5.80	5.80	5.70	5.70	5.77
Spread	1.58	0.73	0.79	0.89	0.89	0.89	0.84
memo: 10-20 simple a/	6.77	6.11	6.03	6.03	6.03	6.03	6.05
Blue Chip (Feb. '98)							
3-month T-bill	5.17	5.24	5.24	--	--	--	--
10-year note	6.75	5.80	6.00	--	--	--	--
Spread	1.58	0.56	0.76	--	--	--	--
CBO (Jan '98)							
3-month T-bill	5.17	5.45	5.34	4.93	4.82	4.82	5.07
10-year note	6.75	6.00	6.10	6.00	5.90	5.90	5.98
Spread	1.58	0.55	0.76	1.07	1.08	1.08	0.91
DRI (Jan '98)							
3-month T-bill	5.17	4.95	4.53	4.21	4.20	4.22	4.42
10-year note	6.75	5.64	5.78	5.63	5.47	5.33	5.57
Spread	1.58	0.69	1.25	1.42	1.27	1.11	1.15
Implicit Forward Rates b/							
3-month T-bill	--	5.17	5.40	5.33	5.64	5.33	5.37
10-year note	--	5.67	5.80	5.92	6.03	6.14	5.91
Spread	--	0.50	0.40	0.59	0.39	0.81	0.54

Note: Data for 1997/98 are actual data for the last week in May 1997 prior to June 1; all other OMB data are for the second calendar quarter, while data from other sources are for calendar years, as published. All bill rates are converted to a bond equivalent basis.

a/ The average simple annual interest rates for 10 to 20 year Treasury bonds, as used in credit budget scoring.

b/ Forward rates for June of each year, as of February 10, 1998.

TABLE 2: INTEREST SPREAD AND COST ASSUMPTIONS

(Percent or Basis Points)

Income or Cost Category	Current Policy		Future Policy: 10-year CMT		Future Policy: 10-20 year	
	In-School	**Repayment**	**In-School**	**Repayment**	**In-School**	**Repayment**
Loan income, after hedging if needed a/	Bills + 2.50	Bills + 3.10	Bills + 1.60	Bills + 1.60	Bills + 1.77	Bills + 1.77
Lenders' cost of matched funds b/	Bills + 0.70	Bills + 0.70	Bills + 0.70	Bills + 0.70	Bills + 0.70	Bills + 0.70
For 1997/8 & '98/9	5.85	5.85	5.77	5.77	5.77	5.77
Interest spread	1.82	2.42	0.96	0.96	1.13	1.13
Grossed-up interest spread c/	2.11	2.71	1.25	1.25	1.42	1.42
Servicing and other costs d/	0.41	1.13	0.41	1.13	0.41	1.13
Net income on assets before tax, '97/8 & '98/9	1.70	1.58	0.84	0.12	1.01	.29
Weighted average net income on assets e/	1.63		0.38			0.55

Note: Costs are representative of large for-profit lenders who both originate loans and hold loans in-repayment in their portfolios.

a/ For current policy, loan income is the formula determination, based on Q2 interest rate; for future policy, loan income is determined under the formula and then reduced by the cost of hedging the loan to convert it into a short-term denominated asset.

b/ The cost of matched funds is assumed to be essentially the same whether raised in a T-bill denominated securitization or borrowed in the LIBOR market, possibly entailing a T-bill/LIBOR swap.

c/ Interest spread is grossed up here and in following tables; interest costs are reduced by 5 percent of the total, because that amount is assumed to be financed by equity.

d/ Includes servicing and overhead costs, origination fees, default risk and prepayment risk (for detailed component separately, see Table 4).

e/ Weights are 36.08% in school and 63.92% in repayment. Net income on assets is before tax.

TABLE 3: SUMMARY TABLE OF STUDENT LOAN PROGRAM RESULTS
Administration Economic Assumptions
(Percent)

Formula or Net Rate of Return	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	5-yr. ave.
1. Current Formula:							
1a. 3-month T-bill +2.5/3.1	7.67/8.25	7.63/8.23	7.51/8.11	7.43/8.01	7.31/7.91	7.31/7.91	7.43/8.03
1b. Estimated net return to lender	1.63	1.66	1.64	1.64	1.59	1.59	1.62
2. Future Formula:							
2a. 10-year CMT + 1.0	n.a.	6.86	6.80	6.80	6.70	6.70	6.77
2b. Estimated net return to lender	n.a.	0.38	0.36	0.36	0.31	0.31	0.34
2c. 10-20 year, simple interest + 1.0	n.a.	7.11	7.03	7.03	7.03	7.03	7.05
2d. Estimated net return to lender	n.a.	0.55	0.52	0.51	0.53	0.53	0.53
3. Alternative Formulas:							
3a. To hold student harmless, CMT	n.a.	Bills + 1.73	Bills + 1.79	Bills + 1.89	Bills + 1.89	Bills + 1.89	Bills + 1.83
3b. Estimated net return to lender	n.a.	0.51	0.55	0.65	0.60	0.60	0.58
3c. To hold student harmless, 10-20 yr	n.a.	Bills + 1.98	Bills + 2.02	Bills + 2.12	Bills + 2.22	Bills + 2.22	Bills + 2.11
3d. Estimated net return to lender	n.a.	0.76	0.78	0.88	0.93	0.93	0.85
4. Range for Target Rate of Return	.80 to 1.15	.80 to 1.15	.80 to 1.15	.80 to 1.15	.80 to 1.15	.80 to 1.15	.80 to 1.15

Note: Formula estimates are a weighted average for loans in-school and in repayment. The weights are based on the relative share of loans outstanding for each loan status, i.e. in-school = 36.08 percent and repayment = 63.92 percent.
Net rates of return to lender and the range for the target rate of return are before-tax returns on assets.

n.a. Not applicable

TABLE 4: RISK-ADJUSTED PRE-TAX NET RETURN for FFEL STUDENT LOANS 1997 and 1998
Administration Economic Assumptions
(Percent)

		7/1/97 to 6/30/98			7/1/98 to 6/30/99	
	In-school or Deferment	**Repayment**	**Consolidation**	**In-school or Deferment**	**Repayment**	**Consolidation h/**
Student Loan Interest Rate (future, CMT) a/	**7.67**	**8.25**	**9.00**	**6.86**	**6.86**	**8.25/9.00**
Student Loan Interest Rate (future, 10-20 yr) a/				**7.03**	**7.03**	**8.25/9.00**
Loan Income, net, CMT b/	7.67	8.27	9.00	6.73	6.73	8.12/8.87
Loan Income, net, 10-20 yr b/				6.90	6.90	8.12/8.87
Less Costs:						
Lenders' cost of matched funds c/	5.85	5.85	5.85	5.77	5.77	5.77
Adjusted cost d/	5.56	5.56	5.56	5.48	5.48	5.48
Origination/holding fee e/	0.06	0.04	1.10	0.06	0.04	1.10
Servicing costs/overhead f/	0.32	0.95	0.47	0.32	0.95	0.47
Default risk	0.00	0.07	0.07	0.00	0.07	0.07
Prepayment risk	0.03	0.07	0.07	0.03	0.07	0.07
Subtotal	**5.97**	**6.69**	**7.27**	**5.89**	**6.61**	**7.19**
Net Return (future, CMT)	**1.70**	**1.58**	**1.73**	**0.84**	**0.12**	**1.49**
Net Return (future, 10-20 yr)				**1.01**	**0.29**	**1.49**
Weighted Average Net Return (future, CMT) g/		**1.64**			**0.52**	
Weighted Average Net Return (future, 10-20 yr) g/					**0.67**	

Note: OMB estimates for interest rates are from the 1999 budget. Loan rates are determined in Q2 of calendar year; costs of funds are determined by the average interest rate from Q3 of first year through Q2 of following year.

a/ New formula for 1998/99 evaluated on the alternative indexes, 10-year CMT and 10-20 year average rate.
b/ Loan income takes account of SAP payments, and of hedging costs when the formula is tied to a long-term index.
c/ Lenders' cost of matched funds is T-bill + 70 basis points.
d/ Cost of funds, reduced by 5 percent; only 95 percent of the loan principal is assumed to be financed by debt.
e/ Fee is amortized over life of loan; part of it becomes a prepayment cost in the case of default or other early loan payoff. Consolidation loans involve an extra fee.
f/ Assumes that servicing/overhead costs in-school are 33 percent of the cost for repayment; for consolidation loans, these costs are 50 percent of those for loans in repayment.
g/ Weights are 31.53%, 55.88%, and 12.58% for loans in school, in repayment, and in consolidation, respectively.
h/ For 1998/99, the loan rate on consolidations is assumed to be 8.25 percent for the first quarter of the school year, before the expiration of the LCA, and to revert to the current upward rounded average of prior rates thereafter.

Appendix A

This Appendix provides details and sources related to the assumptions used in this paper.

1. Table 1 shows that several different *forecasts of interest rates* project a relatively flat yield curve for coming years. Although the *Blue Chip Economic Indicators* consensus forecast for the next two years reflects such a flat yield curve, the levels of their projected rates are slightly higher than those forecast by the Administration in the *FY 1999 Budget,* as are CBO's forecast rates, which also are shown in the Table. A recent DRI forecast, on the other hand, has interest rates close to or slightly below the Administration's projections, but with the emergence of a somewhat steeper yield curve in 1999 and 2000. The differences among these forecasts are small by historical standards and not large enough to change the qualitative conclusions presented in the subsequent tables.

Using the latest budget economic assumptions for 10-year Treasury notes, the student loan interest rate under the new formula would be 6.86 percent (5.86+1.0) for 1998/99, and 6.8 percent (5.8+1.0) for 1999/00. If OMB assumptions for 10-20 year average Treasury security yields on a simple interest basis are used, the comparable rates would be 7.11 percent (6.11 + 1.0) for 1998/99 and 7.03 percent (6.03 + 1.0) for 1999/00.[12]

2. Lenders have several options for obtaining *funds to finance their portfolio* of student loans. One, they can finance their loans by using the bank deposits of their customers. Two, they can sell new debt, which many lenders opt to do. Three, lenders can securitize some of their loan portfolio by a public issuance of student loan asset-backed securities. And four, lenders can roll-over or reduce their financing costs by selling their student loans to a secondary market institution; in some cases, lenders receive a premium for selling their loans.

We consulted a number of financial experts about lenders' cost of financing through new debt issues or securitizations. We did not consider the alternative of financing issuance through drawing on existing bank deposits. Larger banks, in particular, not only may have some instability in their deposit base but also will be rationing deposit funds among many loan departments that are claimants for financing. Consequently, at the margin, these institutions are likely to impose an internal cost of funds that would be closer to an external borrowing cost in short-term markets (so called "managed liabilities") than to yields on customer deposit accounts.

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[12] The 10-year CMT estimates are based on the second calendar quarter rate for 10-year Treasury notes for 1998 and 1999 plus 1.0 percentage point. The 10-20 year average simple interest rates are based on the estimated market yield as of October 1 of the budget year.

An analysis of actual public debt financing for 1997 indicates a significant amount of securitizing. Nearly all of these securitizations were based on T-bills. This may be because student loans are indexed to T-bills, which would preclude a basis risk and the need to hedge by arranging a swap agreement. Another explanation could be that lenders expected the spread between T-bills and LIBOR to narrow but were taking advantage of "cheap" T-bill financing during 1997.

Based on a sample of actual public financings, the average cost of matched funds for the first 11 months of 1997 was T-bills plus about 65 basis points, but the more recent offerings were as high as T-bills plus 85-89 basis points. These new higher cost estimates, as noted in the text, presumably reflect the flight to quality that led to a historically large spread between T-bills and LIBOR. This spread reverted much closer to normal in the first month and a half of 1998, but we have been told by some dealers that technical aspects of the bill market could cause it to be a bit volatile in the next few months. *For our analysis, we assume the cost of matched funds is T-bills plus 70 basis points. This would translate to LIBOR plus about 5 points.* Using FY1999 budget assumptions, the estimated cost of matched funds for 1997/98 is 5.85 percent (5.15 + 0.70), based on the average projected T-bill rate for the "student loan year" from the third quarter of 1997 through the second quarter of 1998 (see Table 2).

3. When there is a basis risk between lenders' assets and liabilities, the net interest margin between the interest rate on student loans and the cost of funds through debt issues is affected by the *cost of a swap*. The basis risk between T-bill indexed assets, such as student loans under the current student loan formula, and LIBOR-based liabilities that are a common alternative for banks is not great because it is not subject to yield curve risk. The risk between 10-year CMT-indexed assets (reset annually), or assets indexed to the 10-20 year average rate, and LIBOR-based liabilities is substantial because of the possibility of disparate movements of long-term and short-term yields. It is this newly increased basis risk that must be taken into account in estimating the net interest margin under the new formula.

Recent estimates provided to us of the cost of swapping T-bills for LIBOR fall within a relatively narrow range. This is not surprising because this is an active and efficient market.[13]

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[13] A swap agreement will be for several years during which both the levels and the relationships between various interest rates may be expected to change. Swap dealers formulate their bids based on models that reflect the historical patterns in these relationships, as well as the

Most of the cost estimates to swap T-bills for LIBOR centered around 65 basis points. When the cost of matched funds is factored in, total all-in costs would be about 70 basis points, assuming that the cost of matched funds in 1997 is LIBOR plus 5 basis points. Note that this swap cost is centered around the same level as the securitization costs discussed above.

Under the new loan formula, lenders presumably would continue actually to raise funds at a rate near, or closely correlated to, LIBOR but would enter into a long-term (amortizing) swap to hedge against basis risk. Lenders financing their student loan portfolio by this option would issue LIBOR-indexed securities and simultaneously enter into a swap where they would agree to pay the swap counter-party the 10-year CMT plus or minus some spread in exchange for LIBOR. Since they would be both paying LIBOR on their original financing and receiving LIBOR on the swap, fluctuations in their short-term cost of funds would be canceled out. But this reduction in risk comes at a cost since the lenders would be giving up the 10-year CMT part of their return and would be left with the spread over the 10-year CMT (or the 10-20 year average interest rate index) in the student loan formula, plus or minus the spread in the swap contract. If the student loan originator wanted to borrow in a T-bill based instrument (securitizations being the instrument that is likely to come in this form), the lender might swap LIBOR back to bills and that swap spread would also have to be taken into account in calculating the net interest margin. Indeed, *this is the assumption used in the presentation in Table 2 above, where the swap margin of CMT plus 5 for LIBOR and the reverse swap of LIBOR for bills plus 65 converts the formula return on the student loan from CMT plus 100 to a return in terms of bills of T-bill plus 160.* If the student loan rate were indexed to average annual simple interest rate on 10-20 year Treasury securities, banks would have a more complex problem in hedging their yield because there is no

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current spreads between different yields and the future evolution of these yields that seems to be implicit in current market quotes (futures rates and forward rates implicit in the shape yield curve at the present time). Actual swap quotes will also be influenced by supply and demand considerations at any point in time as well as by transactions costs of the dealers and counter-party risks.

market for directly swapping this yield index. We have assumed that one third of the surplus yield from the 10-20 year index over the 10-year CMT would be absorbed in additional transactions and swap costs.

The estimated costs of swapping CMTs for LIBOR were obtained from a number of major swap dealers. These dealers told us that such a market, with the CMT reset quarterly (consistent with the lender receiving SAP payments) does exist because it has been useful for mortgage servicers. *These dealers generally provided quite similar swap spreads, with such a contract quoted at about CMT plus 5 basis points for LIBOR. As noted above, this is the swap spread that we have assumed.* Some dealers did mention that a substantial increase in the demand for these swaps could affect the quotes because there is not a natural counter-party to take up the opposite side of the contract from the student loan originator. Therefore, the dealer must carry that side of the contract, hedging it in turn with a sequence of transactions in the forward market.

Swap estimates, we also were told, will be heavily influenced by the term structure of interest rates at the time the swap contract is executed. This means that a lender is able to insulate his net return on any given loan from short-term fluctuations in his funding costs, but that this net interest margin may vary considerable among loans made in different financial market circumstances. Because the interest rate assumptions in the FY 1999 Budget imply little change in the yield curve over the next few years, we have assumed that the estimated cost of a swap for the current interest rate environment remains applicable over the forecast horizon.

4. Estimating *overhead costs* for their student loan program requires lenders to allocate the share of their fixed costs that are incurred for this purpose. A large secondary market company that purchases student loans quoted us 15 basis points for overhead expenses. A guaranty agency quoted us 35 basis points. As noted earlier, it is possible that some lenders may misallocate their costs between overhead and servicing. Therefore, the more reliable number may be the total of overhead and servicing costs combined. Our estimate for this total number is examined in the following discussion of servicing costs.

5. There are two approaches that lenders may use to estimate their *servicing costs*. One is to view these costs as the ratio of all such costs incurred in any given time period to the total value of the loan portfolio for that period. Alternatively, servicing costs could be thought of in terms of the average annual cost over the life of a single loan as a percent of the average annual remaining principal of the loan. Looking at servicing costs the latter way, the ratio rises sharply over the life of the loan because the loan principal declines from year to year while servicing cost rises sharply during the in-school period and then levels off during the repayment and consolidation periods until close to final repayment. Obviously, both of these approaches for estimating servicing costs depend on the average maturity of a lenders portfolio: a lower average maturity will be influenced by the lower relative cost of servicing the portfolio and a higher average maturity will be influenced by the higher costs relative to the remaining principal.

A 1993 CRS study[14] noted that Sallie Mae reported their servicing costs were 66 basis points. A private guaranty agency estimates that servicing costs are about 60 basis points for a traditional bank. A similar figure is also cited in the latest Sallie Mae annual financial report as the cost of servicing Sallie Mae's entire portfolio over the course of a year, i.e., total servicing costs as a percent of total loans.

A later (1997) CRS study[15] estimated Sallie Mae's in-school servicing costs are 35 basis points, but their costs for the repayment period are much higher, about 100 basis points. This latter figure apparently was based on the average annual servicing cost of a loan over the life of the marginal loan as a percent of the remaining principal of the loan outstanding. We think this approach of using averages of large numbers to estimate servicing costs overstates servicing costs.

The financial statements filed with the Securities Exchange Commission by a major originator of student loans report that their combined operating expenses averaged about 110 basis points from 1992 to 1994, 102 basis points in 1995, and about 95 basis points in 1996 and 1997. This significant decline in operating expenses reflects largely the larger volume of student loans they hold, the economies of scale resulting from this larger volume, and increased productivity from a more experienced workforce. Similarly, a guaranty agency that estimated its overhead costs were 35 basis points also estimated its servicing costs were 60 basis points, for a combined total of 95 basis points.

If we consider servicing and overhead costs as one cost in order to avoid the problem of

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[14] Barbara Miles and Dennis Zimmerman, "Federal Family Educational Loans: Reduced Costs, Direct Lending, and National Income," Congressional Research Service, February 22, 1993, PP. CRS-18 and 19.

[15] Miles and Zimmerman, 1997, *op. cit.*

allocating these costs to the correct category. *Our assumption for total servicing/overhead costs is 95 basis points for loans in repayment. It costs lenders less to service student loans when students are in school and when loans are consolidated. Thus, we assume overhead and servicing costs for loans in the in-school status are one-third of the cost of loans in repayment and loans in consolidation are one-half of the cost of loans in repayment.* (Details of the servicing and other operational expenses borne by lenders are summarized in Table 4; these costs are cumulated in the "servicing and other costs" line of Table 2.)

6. Because student loans are guaranteed by the Federal Government, the *risk of default* is very small. During the in-school period it is almost nonexistent. The Federal Government pays the interest costs for subsidized loans while the student is in school. *Several sources told us their default costs are low; one source said their default costs are only 7 basis points. We assume this is a reasonable estimate of default costs for loans in repayment.*

7. Loan originators are required to pay a 50 basis point *origination fee* to the Department of Education. Although this is a one-time fee paid when the loan is originated, we have assumed that the cost of the fee is amortized over the average lifetime of a student loan, which has fallen in recent years to about 9 years (3 years in-school and 6 years of repayment). Thus *the annual amortized cost of the origination fee is about 6 basis points for over the full life of the loan.* However, since some of these loans will default, or otherwise be paid early, a part of these costs, in repayment, are shifted to the prepayment cost line discussed below. For consolidation loans, the 5 basis points origination fee is added to the 1.05 percent rebate fee, for a total fee of 1.10 percent.

8. Many financial market experts think that *prepayment costs* are not a serious problem because borrowers tend not to have the resources to prepay their loans until well after they have graduated. Others, however, think that prepayment risks can be a problem, partly because borrowers may have a tax incentive to take out a home equity loan to prepay their student loan, if the spread is not too large. Until recently, interest on student loans has not been tax deductible. The Taxpayer Relief Act of 1997, enacted last summer, allows certain individuals who have paid interest on qualified education loans to claim a deduction for this expense. However, the Act limits the interest deduction to the first 60 months in which interest payments are required and also limits the amount of interest that can be deducted.

In addition, prepayments may occur because of consolidations -- indeed, there have been reports in the past that some lenders may have been offering price incentives to discourage students from consolidating or prepaying their loans and moving into the direct loan version of the program -- but this source of prepayments has become much less important recently. Consolidation has been reduced because of the logjam of applications and the temporary suspension of the program that allows borrowers to consolidate their guaranteed loans into a consolidated direct loan. Moreover, in the future, the squeeze on lenders' net return because of the new student loan formula may make it impossible for lenders to continue offering these price incentives. And finally, the Emergency Student Loan Consolidation Act of 1997 (LCA), enacted in October, 1997, could discourage many lenders from offering to consolidate students loans for borrowers. The LCA makes it more costly for lenders to offer students the option to consolidate their loans, because it changes the formula for determining consolidation loan rates. The LCA also makes consolidation less attractive to lenders, because the law is only temporary and because the start up costs to configure computer programs will be expensive. The long run impact of the LCA is unclear, and obviously depends on whether this temporary legislation is extended.

Estimates of prepayment costs appear to be somewhat arbitrary. The CRS estimated that lenders prepayment costs are high.[16] But various lenders have told us that they do not view prepayment as a major cost. One clear cost associated with prepayment is that there are fewer years over which to amortize origination fees. If the typical prepayment happens when there are about 4-1/2 years remaining in the life of the loan, then this is about 25 basis points of increased costs in that year (since the lender was typically going to have the extra years over which he was amortizing 5-to-6 basis points per year). Given typical default rates, this is an expected cost over all loans of about 5 to 7 basis points. Although the costs of prepayment are higher if a student prepays in school (since the student is "un-amortizing" more years), the number of students who do so is much smaller. *We assume the prepayment cost for lenders is 3 basis points while students are in school, and 7 basis points in repayment.* These estimates are consistent with the cost estimated by several sources before the enactment of LCA.

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[16] Miles and Zimmerman, 1993, *op. cit.* Subsequent conversations with Barbara Miles confirm that their prepayment cost estimate was too high.

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ussaleg (ussaleg@essential.org@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 2-MAR-1998 20:18:00.00

SUBJECT: Legislative Report 12 3/2/98

TO: Jason S. Goldberg (Jason S. Goldberg@EOP [UNKNOWN])
READ:UNKNOWN

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:
Legislative Report 12

Monday, March 2 1998

This report contains an update on Reauthorization of the Higher Education Act (with a focus on student loan interest rates, SSIG, campus safety, and affirmative action) and FY99 Appropriations.

REAUTHORIZATION

At long last, the Reauthorization process is getting under way. The House Subcommittee on Post-Secondary Education (the subcommittee of the Committee on Education and the Workforce that has been working on the House reauthorization bill) is scheduled to mark-up (i.e. release and discuss) its Reauthorization bill on Wednesday, March 4th. The subcommittee mark-up will not include a release or discussion of the student loan or grant programs, except the grant programs for graduate education. These pieces of the bill will be released and discussed during the full Education and the Workforce Committee mark-up on Wednesday, March 18.

USSA's National Student Lobby Day (Tuesday, March 10th) falls right between the two mark-ups -- a perfect time for students to make their voices and concerns heard on Capitol HIll.

The Senate will probably mark-up their bill a week or two after the House.

STUDENT LOAN INTEREST RATE

The scheduled student loan interest rate reduction, set to take place in July, 1998, is a top priority issue for Reauthorization. USSA has been working with both the House and Senate education committees to make sure the student needs are understood and that Congress remains true to the spirit of its original 1993 decision to reduce the cost of student loans.

The House Education and the Workforce Committee will hold a hearing on this issue Thursday, March 4 and has invited USSA Legislative Director, Erica Adelsheimer, to testify on behalf of students. Secretary Riley and Treasury Secretary Rubin have also been invited to testify along with representatives of university and banking associations. Despite hard core lobbying efforts on behalf of the bankers who are fighting to preserve their profits, USSA believes that Congress is paying serious attention to the voice of the students on this issue and shares our concerns. USSA has participated in meetings called by Subcommittee Chairman Buck McKeon and Ranking Member Dale Kildee (D-MI), and we believe that the members as well as their staffs have a good sense of the tremendous burden of student loan debt and how critical the reduction in interest rates is to millions of students across the country. However, with continued pressure being put on these members by the banking groups, we need to make sure we are letting all members of the House Education and the Workforce and the Senate Labor and Human Resources Commitees hear from students. (See USSA ACCESS 98 manual for list of committee members).

To help ensure that we preserve the interest rate reduction, STUDENTS SHOULD CALL THEIR SENATORS AND REPRESENTATIVES AND URGE THEM TO MAINTAIN THEIR PROMISE TO LOWER THE INTEREST RATE ON STUDENT LOANS. Remind your legislators that they wrote the scheduled reduction into law in 1993 in order to lower the cost of loans to students and now, more than ever, we need the relief! (Since the time the change was written into law, federal loan debt of students and families has DOUBLED!) Also, remind your legislators that students, overwhelmed by debt, need the significant savings the scheduled reduction would provide: For a student with $15,000 in debt, a 1% reduction in the interest rate would mean a savings of nearly $1000 during a 10-year repayment plan--more if it took longer to repay the loan. For a student with $40,000 in debt, a 1% reduction would mean a savings of $2,500 in a 10-year repayment plan and more than $6,100 if it took 20 years to repay the loan.)

SSIG and LEAP (A NEW STATE MATCHING GRANT PROPOSAL)

USSA has been working closely with Senator Reed (D-RI) and Senator Collins (R-ME) as well as with the leadership of both the House and Senate reauthorization committees to ensure that a state matching grant is reauthorized as part of the Higher Education Act. On February 12, 1998 Senators Reed and Collins introduced their proposal for the Leveraging Educational Assistance Program (LEAP), S.1644. LEAP would act like SSIG, but would require a 2-1 match from states after an appropriations level of $35 million (giving students $3 for every $1 the federal government invests). LEAP would also give states more flexibility to help needy students attend college. States could use funds for:

% increased grant aid

% academic scholarships

% early intervention

% mentorship

% career education

% high school-to-college transition

% community service

% scholarships for students wishing to become teachers

USSA very much supports this proposal, which will enable hundreds of thousands of students to continue receiving needed assistance and expand both the type of assistance and the amount of money provided. Senators Jeffords (R-VT) and Kennedy (D-MA), the Chair and Ranking Member of the Senate Labor and Human Resources committee are co-sponsoring the legislation and will include it in their Reauthorization bill. STUDENTS SHOULD CALL THEIR SENATORS AND ASK THEM TO CO-SPONSOR THE LEGISLATION AND SUPPORT IT DURING REAUTHORIZATION.

USSA has also learned that the bi-partisan House bill for Reauthorization will include a proposal for a revised state matching grant. USSA believes the House proposal will also be favorable to students.

CAMPUS SAFETY

Another issue of large concern to students during Reauthorization is campus safety. USSA has been working closely with Representative Schumer's (D-NY) office to craft a bill that will improve campus crime reporting. We have shared the latest draft of this bill with Education and the Workforce Chairman Goodling's staff and very much hope that our proposals will be incorporated into the House Reauthorization bill.

Unlike the previous Accuracy in Campus Crime Reporting Act, ACCRA, H.R. 715, the new Schumer bill (not yet introduced) would provide significant protections for victims. The new bill does NOT call for open disciplinary hearings, and confidentiality in reporting would be preserved by keeping names and identifying information confidential. Yet, at the same time, the bill would improve students access to more accurate information by:

% Requiring statistical reporting by resident advisors, coaches, administrators, and deans (in addition to campus police and security). This provision will help give a more accurate picture of the amount and types of crimes occurring, as many students report attacks or assaults to their RAs, but may not choose to go to the campus police. The RAs, coaches, etc. would only be providing statistical data to the campus security (number and type of crime reported, date, and general location) and would not be allowed to reveal identifying information unless the victim agreed. However, with more accurate information about the prevalence of campus crime, students would be able to pressure their administrators to provide better safety and prevention measures (such as "blue lights," escort services, better locks on dormitory entrances, peer counseling, alcohol/drug and sexual assault awareness programs, etc.)

% Ensuring that information on campus crime is disseminated periodically (preferably quarterly) and that it is disseminated through easily accessible means, such as campus e-mail and student newspapers

% Designating one person on campus to be responsible for certifying the accuracy of statistics, for co-ordinating information dissemination, and for acting as a resource for campus and community-based crime prevention services. This requirement would ensure that students do not have to make 30 phone calls to get the information they want and that they have a knowledgeable resource to turn to when they need support or advise.

USSA also supports the Hate Crimes Prevention Act, S. 1529 (introduced in the House by Senators Kennedy (D-MA) and Specter (R-PA) and in the House by Representatives Schumer (D-NY) and McCollum (R-FL)) which would alter the definition of hate crimes to include those perpetrated because of a person's sexual orientation, gender, or disability. These new definitions would then automatically be incorporated into reporting requirements on campus. In other words crimes of homicide, sexual assault, robbery, aggravated assault, burglary, larceny, or motor vehicle theft perpetrated because of a victim's race, ethnicity, religion, disability, sexual orientation, or gender would have to be reported as hate crimes. USSA also believes hate crimes of arson, vandalism, simple assault, and criminal harassment should be reported. There is currently no federal requirement that these types of crimes be reported.

AFFIRMATIVE ACTION

USSA has learned that Representative Riggs (R-CA) plans to offer an amendment to the bi-partisan House Reauthorization bill to eliminate affirmative action on all college campuses. Riggs may either offer and withdraw the amendment during the Subcommittee mark-up on March 4, and then re-introduce the amendment during the full committee mark-up, March 18, or he may simply introduce the amendment at the full committee mark-up. Either way, it will be essential for students to make their voices heard on National Student Lobby Day as to the critical need for preserving affirmative action programs. While a number of Republicans on the Education and the Workforce Committee will support Riggs' amendment, others may be persuaded to oppose it. Out of the 45 members of the committee, 18 Republicans will most likely vote for an amendment to abolish affirmative action, while 16 Democrats will almost certainly oppose it. Eleven members of the committee are likely to be the swing votes:

Chairman Goodling (R-PA) Petri (R-WI) Castle (R-DE)
Greenwood (R-PA) Fawell (R-IL) Upton (R-MI)
Peterson (R-PA)

Andrews (D-NJ) Kind (D-WI) Kucinich (D-OH)
Roemer (D-IN)

These members need to be visited during National Student Lobby Day and urged to sign the Declaration for Diversity from USSA's Access Denied:

Diversify! campaign. Calls to these and other members of the Education and the Workforce committee will also be very important over the next two weeks. STUDENTS SHOULD CONTACT THE CAPITOL SWITCHBOARD AT 1-202-225-3121 AND ASK TO BE CONNECTED WITH THE ABOVE OFFICES. STUDENTS SHOULD ALSO CALL THEIR OWN SENATORS AND REPRESENTATIVES AND DEMAND THAT THEY OPPOSE ANY ANTI-AFFIRMATIVE ACTION AMENDMENTS THAT ARE ATTACHED EITHER AT THE COMMITTEE LEVEL OR ON THE FLOOR.

FY99 APPROPRIATIONS

As reported in Legislative Report 11, the President's budget included both plusses and minuses for students and educational access. Now, we need to take our message on what students feel should be prioritized to the Budget and Appropriations committees. USSA was very pleased with the President's introduction of the High Hopes initiatives (College-School Partnership initiative and Early Awareness Information initiative) and his increased support for the TRIO programs. We believe these programs have the potential to offer millions of low-income middle, high school and college students the human and informational resources they need as they travel the path to and through higher education. Students should urge their legislators, particularly those who sit on the Budget and Appropriations committees, to support the initiatives and the increased funding for TRIO and give low-income and first generation students a fair chance in their fight for educational opportunities.

On the other hand, USSA was disappointed in the President's budgetary requests for federal grant aid. The President backed away from his commitment to Pell grants, proposing a maximum grant increase of only $100 for FY99. To truly make access for the most low-income students a reality, we need to fund the Pell grant at a level where it would cover the majority of college costs (as it did in 1975). A step in that direction would be to fund the maximum grant at $3,400 in FY99 (an increase of $400), as USSA called for in our Diplomas Not Debt! campaign. Students should urge their legislators to support this level of funding.

Students should also urge their legislators to increase funding for other critical grant programs, such as the Federal Supplemental Educational Opportunity Grant (FSEOG), graduate grant programs (Harris, Javits, GAANN), and the ONLY state matching grant, SSIG. In addition, funds for the Perkins loan program (a crucially needed low-interest loan program for low-income students) must be increased, rather than cut as the President's budget suggests.

TO URGE YOUR CONGRESS MEMBERS TO SUPPORT INCREASED AID FOR STUDENTS USE THE ***FREE*** ALLIANCE TO SAVE STUDENT AID HOTLINE!

CALL 1-800-574-4AID

TO BE CONNECTED WITH YOUR SENATORS AND REPRESENTATIVE

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TAKE ACTION ON CAPITOL HILL!

JOIN THE U.S. STUDENT ASSOCIATION IN THE

29TH ANNUAL GRASSROOTS LEGISLATIVE CONFERENCE

AND NATIONAL STUDENT LOBBY DAY!

MARCH 7-10,1998

GALLAUDET UNIVERSITY

WASHINGTON D.C.

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Erica Adelsheimer Phone: 202.347.USSA

Legislative Director Fax: 202.393.5886

U.S. Student Association E-mail:

ussaleg@essential.org

1413 K Street NW 9th Floor

http://www.essential.org/ussa

Washington, DC 20005

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==================== ATTACHMENT 1 ====================
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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IU7A7AOUVK00DBAX@PMDF.EOP.GOV>; Mon,

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RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Robert Clayton (CN=Robert Clayton/OU=EDUC/O=GOV [UNKNOWN])

CREATION DATE/TIME: 4-MAR-1998 17:54:24.00

SUBJECT: Education's Weekly Report for March 8-14

TO: Cabinet Affairs (Cabinet Affairs [UNKNOWN])
READ:UNKNOWN

TEXT:

March 4, 1998

MEMORANDUM FOR ERSKINE BOWLES, THE WHITE HOUSE

FROM: Richard W. Riley

SUBJECT: Weekly Report for March 8-14

KEY DEPARTMENT NEWS

Closed Captioning Controversy: Senators Coats and Lieberman wrote to Secretary Riley on March 3 strongly expressing concerns about a DOEd-funded program that provides closed-captioning of television programs. The Senators wrote in response to an article in Education Week that reported that the program funds closed-captioning of "The Jerry Springer Show," which they characterize as "the closest thing to pornography on broadcast television." DOEd does not select the programs captioned under the grant, and maintains that it would be inappropriate for it to censor the programs available to the general public by denying captioning to the hearing-impaired. The Senators' letter has been covered by AP, the Los Angeles Times, the Washington Post, and the Washington Times, and DOEd staff received inquiries from outlets including CNN, the New York Post and the New York Daily News on March 4.

Omnibus Education Bill: Secretary Riley participated in a March 4 press conference with Congressional Democratic leaders and Members interested in education to announce the introduction of Democrats' Omnibus Education Bill. The bill includes school construction, class size, education opportunity zones, technology initiatives, after-school programs and increased funding for other education programs.

Events with Members of Congress: Secretary Riley on March 4 taped roundtable discussions with Senators Reid and Daschle on school construction and with Senator Boxer on after-school programs. Secretary Riley is scheduled to join a group of House freshmen for a March 11 dinner organized by Rep. DeLauro and to appear as a guest on Rep. Forbes' cable show on March 18 and Rep. Thurman's cable show on March 24; he may also appear as a guest on Rep. Jim Davis's cable show on March 24. The Secretary is also scheduled to join Representatives Tierney and McGovern at education events in their districts on March 20.

PA Cooperative Audit Resolution: On February 27, DOEd staff and PA state authorities concluded an audit process under the Cooperative Audit Resolution and Oversight Initiative (CAROI). Under the CAROI process, which has received a Hammer Award, a team representing DOEd's various offices works cooperatively with representatives of a wide range of state agencies to resolve outstanding audit issues and prevent their recurrence. PA authorities have been extremely positive about the outcome of this process, which cooperatively resolved over 100 audit findings. The project was the largest undertaken by DOEd's CAROI team to date. The team is now beginning an effort to share its experience with other federal agencies.

Speeches by Secretary Riley: The Secretary is scheduled to address the Direct Lending Conference in DC on March 9; the Howard University Leadership in Education Forum in DC on March 10; the National Academy of Math and Science in DC on March 13; an Irish American Magazine dinner in DC on March 13; the Core Knowledge Teachers Conference in Atlanta on March 14; the Council of Chief State School Officers Legislative Conference in DC on March 15; a Yale University education and the arts event in New Haven on March 19; the Harvard University ARCO Forum in Cambridge on March 19; the Council of Great City Schools in DC on March 22; and the Revolutionary Colleges Conference at Dickinson College in PA on March 27.

AGENCY WORK ON PRESIDENTIAL INITIATIVES

America Reads: Carol Rasco met with Senator Jeffords on March 4 to discuss America Reads legislation.

High Hopes: DOEd staff are in the process of planning for the March 17 Satellite Town Meeting "Think College Early: Preparing

Academically and Financially."

21st Century Community Learning Centers: Secretary Riley was scheduled to participate in an after-school programs event with the Vice President in Manchester, New Hampshire, on March 6.

NOTABLE CONGRESSIONAL ACTIVITY

Appropriations: Secretary Riley was scheduled to testify before the Senate Labor/HHS/Education Appropriations Subcommittee on March 5 and before the House subcommittee on March 25. The House subcommittee is also scheduled to hold hearings on elementary and secondary education on March 26; on vocational and adult education, special education and rehabilitative services, educational research and improvement and the inspector general on March 31; and on postsecondary education and civil rights on April 1.

Student Loan Interest: Assistant Secretary for Postsecondary Education David Longanecker was scheduled to testify at a March 5 hearing of the House Education and the Workforce Committee on student loan interest rates.

Campus Crime: The Senate Labor/HHS/Education Appropriations Subcommittee is scheduled to hold a hearing on campus crime on March 5, at which Assistant Secretary for Postsecondary Education David Longanecker is scheduled to testify.

DC Voucher Proposal: The Early Childhood, Youth and Families Subcommittee of the House Education and the Workforce Committee is scheduled to hold a hearing on a DC school voucher proposal on March 12.

Technology and Education: The House Education and the Workforce Early Childhood, Youth and Families Subcommittee is scheduled to hold a field hearing on education and technology, focusing on meeting the needs of future students and employers, in Silicon Valley on March 16.

SECRETARY'S SCHEDULE

Please see attachment.

PRESS/MEDIA INQUIRIES

Interview Scheduled: Secretary Riley is scheduled to be interviewed by the Christian Science Monitor on March 9.

FOIA REQUESTS

There is nothing to report at this time.

=================== ATTACHMENT 1 ===================
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The following is a HEX DUMP:

================= END ATTACHMENT 2 =================

Secretary Riley's Schedule April 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1 **10:00-10:15am** Video Taping for Salisbury State Per TZawaiza	2 ***House Recess*** **10:00-12:00** "Death of the Marlboro Man" Kick Butts Day @ Deale Mid School **SPEECH** per RWR	3 **10:00-10:30am** Trip Briefing for LA **TBD** Fly to New Orleans	4 ***Senate Recess*** **NEW ORLEANS** **RON New Orleans**
5 ***Daylight Savings Time (Spring Ahead)*** **7:21-9:03pm** Fly DCA to New Orleans **NEW ORLEANS** **RON** New Orleans	6 **NEW ORLEANS** **8:30-9:30a** Pledge Breakfast per L Hemming **REMARKS** (Tent) METAIRIE, LA **10:00-11:00** School Visit re: Construction **12:00-1:00** NSBA **SPEECH** per T Peterson Advance: **2:25-4:12** Fly to St. Louis **4:30-5:30** Drive to Edwardsville, IL **6:00-7:00** SIU Dinner **REMARKS** Advance: **RON** Edwardsville	7 **EDWARDSVILLE, IL** **9:00-11:30** America Reads Tudor Event **REMARKS** 11:30-12:30 Drive to STL Airport **1:05-4:40** Fly to Newark **5:00-6:00** Drive to **PRINCETON** **6:00-8:00** ETS 50th Anniversary Dinner **REMARKS** **8:00-9:00** ETS 50th Anniv Convocation **INTRO** Tom Brokaw Advance: **RON** Princeton	8 **9:30-10:30** Drive to Newark Airport **11:30-12:34** Fly to DCA	9	10 *Good Friday* **12:00-1:30pm** DNS PerSR	11 *Passover*

Secretary Riley's Schedule April 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
12 *Passover* *Easter*	13 *Passover* *WH Easter Egg Roll* **10:00-11:00a** Brief re Chile	14*Passover* **10:00-11:00a** Brief re Chile **12:00-1:30pm** DNS PerSR	15 *Passover* **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**	16 *Passover* **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**	17 *Passover* **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**	18 *Passover* **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**
19 **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**	20 *Congress Reconvenes* **SANTIAGO, CHILE** **Summit of the Americas w/POTUS**	21 **SANTIAGO, CHILE** School Visits *NOTE: STM Re: "Making Math Count"*	22 **Fly to DCA** TBD WH Teacher of the Year Dinner	23 **DO NOT SCHEDULE** per R Burke	24 *Take R Daughters to Work Day* **11:00-11:30am** Trip Briefing for MI	25 **4:10-5:50pm** Fly DCA to Detroit **6:15-7:00pm** Drive to Ypsilanti **RON** Ypsilanti, MI
26 **YPSILANTI, MI** **9:00-10:30am** Breakfast w/ MI Superintendents PerJBlanchard **REMARKS** **11:00-1:00pm** Eastern Michigan U Commencement **SPEECH** **1:30-2:30pm**	27 **LANSING, MI** **8:30-9:30a** Pledge Breakfast **REMARKS** per L Hemmings (tent) **TBD AM** Event w/ Rep. Debbie Stabenow **REMARKS** **TENTATIVE**	28	29 **DO NOT SCHEDULE** per R Burke	30 ***50th Anniversary of Israel*** ***"Erase the Hate Day"*** **TENTATIVE** Travel for Governors Roundtable Re: Erase the Hate		

Secretary Riley's Schedule April 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Drive to E. Lansing **TBD** Mtg. w/ Pres. McPherson (MSU) **6:00-8:30pm** Event w/ Rep. Debbie Stabenow **POLITICAL** **RON** E. Lansing, MI	Drive to Flint, MI **TBD PM** Event w/ Rep. Dale Kildee **Advance:** MC Gumbleton **5:05-8:21pm** Fly Flint to DCA (shuttle service) OR **6:50-10:21pm** Fly Flint to DCA (jet service)					

Secretary Riley's Schedule March 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Jay Blanchard	MC Gumbleton	Shawn Polk	MC Gumbleton	Shawn Polk	Shawn Polk	John Funderburk
1	2 **7:55-9:50am** Depart Andrews AFB via AF2 **COLUMBUS, GA** **10:30-11:00am** Roundtable Discussion w/ ED leaders **11:15-11:30am** School Tour Lifelong Learning Event w/ VPOTUS **REMARKS** **ATLANTA, GA** **TBD** After School / Reading Event w/ VPOTUS **REMARKS** **TBD** Education Meeting with VPOTUS	3 **8:30-9:30am** Brkfst. w/ LA Times **10:00-11:00am** Peace Corps Day Videoconference **TALKING POINTS** **11:30-1:00** Brief re 3/5 Testimony **1:00-1:30pm** PBO Briefing **1:30-1:45pm** Meet Cris Pooler per J Funderburk **PHOTO** **1:45-2:00pm** Video for USSA Conf. PerDBernal **REMARKS** **3:00-3:30pm** Mtg. w/ Larry Stein **3:30-4:00** Hold for Harkin briefing **5:30pm (tent)** SC Delegation Recpt. **7:30** Netherlands Embassy	4 **9:45-10:00am** Video Tapings w/ Sens. Harry Reid and Barbara Boxer **REMARKS** **10:00-10:30am**Press Conf. w/ Hill Dems. **REMARKS** **10:45-11:15am** SES Orientation **REMARKS** **11:30-12:00** VP CEB Roundtable **12:30-1:30** Lunch w/Sen Tom Harkin **1:30-2:00** Briefing for Daschle Mtg. **2:00-2:30**Mtg w/ Sen. Tom Daschle **3:30-4:00p** Brief re Mtg w/ Balint Magyar **4:00-4:30p** Mtg w/ Balint Magyar, ED Minister of Hungary **Photo** **4:30-6:00pm** Testimony Briefing **7:30** Hungarian Embassy	5 **9:00-11:00am** DNS PerJB **11:00-11:30am** Briefing for Lt. Govs. Speech **12:00-12:30** Nat Conf of Lt Gov **SPEECH** **2:00-3:30pm** Specter Hearing **TESTIMONY** **5:30-5:45pm** Drop-By NASULGC Mtg. PerSRinck **5:45-6:00pm** Phone Call w/ Sen. Bob Kerrey PerSFleming **8:00 pm** Dinner w/ Venezuelan Minister of Ed	6 TENTATIVE NEW HAMPSHIRE **3:00-3:30pm** Briefing for Direct Lending Conf. Speech on 3/9 **3:30-4:00pm** Briefing for CA State Legislators Speech on 3/9 **4:00-5:00pm** Hold for Calls PerTP	7

Secretary Riley's Schedule March 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
John Funderburk	Kitty Signs	MC Gumbleton	MC Gumbleton	Shawn Polk	Kitty Signs	John Funderburk
8	9 **9:00-9:30am** Direct Lending Conference **SPEECH** **10:00-10:30am** CA State Legislators Briefing @ WH **SPEECH** **10:30-11:15** Drive to Chantilly, VA **11:15-12:30** Tour Chantilly High School **REMARKS** **12:45-1:15** Lunch **2:15-2:30pm** Briefing for Intvw. **2:30-3:00pm** Christian Science Monitor **INTERVIEW** **3:00-3:30pm** Hold PerJRiemer **3:30-4:00pm** Hold for Calls PerTP **4:00-4:30p** Video Taping for Isadore Louie Per Jgreen **REMARKS** **4:30-5:00pm** Mtg w Stephen Strickland of NPF per D Rossi	10 **10:00-10:30am** HBCU Briefing PerDLonganecker **10:30-11:00am** Briefing for Howard U. Event **11:00-12:00p** Hold for Calls PerTP **12:15-1:15pm** Lunch w/ Ted Sizer PerPSchwarz **1:30-3:00** Howard U "Leadership in Education" Forum **REMARKS** per R Burke **4:15-4:30pm** Briefing for Interview **4:30-5:00pm** "Children's Express" **INTERVIEW** PerELepping **6:00-6:30pm** HISP Chamber Mtg.	11 **DNS 9:00-12:00** per Rburke **2:30-3:30pm** Hold for Calls PerTP **3:30-4:00pm** Briefing on Indian Education Executive Order PerGTirozzi **4:15-4:30pm** Briefing for Video Taping **4:30-5:00pm** Video Re: E-Rate PerJGreen **REMARKS** **5:00-5:30pm** Briefing for Mtg. on S. Africa on 3/12 PerJWoods **6:30-8:30pm** Dinner w/ Frosh House Members **TALKING POINTS**	12 **10:00-11:00am** Mtg. on S. Africa PerJWoods **TALKING POINTS** **11:00-11:30am** Mtg. w/ Bill McCuen **11:30-1:00pm** DNS PerJB **1:00-1:30pm** Meet with Boy Scouts per WGoode **3:00-3:30pm** Mtg. w/ Marty Evans (Girl Scouts Pres.) PerWGoode **3:30-4:30pm** Hold for Calls PerTP **5:00-7:00pm** NASBE Reception **BRIEF REMARKS** **8:00p** Graham Dinner	13 **11:00-11:30am** Briefing for NAMS Speech **1:00-1:30pm** National Academy of Math & Science **SPEECH** per J Wurtzel **2:30-3:00pm** Briefing for CCSSO Speech on 3/15 **NEW YORK CITY** **4:00-5:00** Fly to NYC **6:00-10:00pm** Irish American Magazine Dinner **REMARKS** advance: Regan Burke **RON** NYC	14 **10:00a-12:25** Fly to **ATLANTA** **3:30-4:00p** Core Knowledge Teachers Conf **SPEECH** per RWR Advance **5:25-7:05** Fly to DCA **7:30pm** Bagley Dinner

Secretary Riley's Schedule March 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Jay Blanchard	Jay Blanchard	Kitty Signs	John Funderburk	MC Gumbleton	Kitty Signs	Shawn Polk
15 **6:30-8:30pm** CCSSO Leg. Conf. Dinner **SPEECH**	16 **10:00-10:30am** Mtg. w/ SRR's PerWGoode **REMARKS** **10:00-10:15am** Photo w/ Peace Corps ED Employees Per Tpeterson **2:00-2:30pm** Briefing for Mtg. w/ Delaine Eastin **2:30-3:00pm** Mtg. w/ Delaine Eastin **3:00-4:00pm** Hold for Calls perTP **4:00-4:30pm** Briefing for STM **6:30pm** American Ireland Fund Dinner	17 *St. Patrick's Day* **12:00-3:00** HOLD per R Burke **3:00-3:30pm** Hold for Calls PerTP **3:45-4:00pm** Drop-By CAPE **5:30-6:45pm** WH St. Patrick's Day Party **7:00-8:00pm** STM Prep **8:00-8:45pm** STM Re: "Preparing for College" **REMARKS** **9:00pm** Buffet Dinner Party @ Irish Embassy	18 **10:00-11:45am** Briefing for 3/25 Testimony **12:00-12:30p** Videotaping w/ Rep. Mike Forbes **REMARKS** **TBD** Eastern Middle School, Silver Spring Tour **REMARKS** **2:30-3:00pm** Trip Briefing for CT and MA **3:00-4:00pm** Hold for Calls PerTP **5:00-6:30pm** Fly to New Haven **RON** New Haven	19 **NEW HAVEN** **11:00-2:30** Yale **SPEECH** Staff: Jamie Studley Advance: Lidice Rivas **2:45-3:45** Drive to Hartford Airport **4:15-5:10** Fly to **BOSTON** **6:30-8:00pm** ARCO Forum Dinner for David Kearns **8:00-9:00** ARCO Forum **SPEECH** Advance: Jay Blanchard **RON** Boston	20 **BOSTON** **9:00-10:00a** Coffee w/Harvard group **10:00-11:00** Drive to **HAVERILL, MA** **11:00-12:30** School Visit w/ Rep Jim McGovern **REMARKS** Advance: **12:30-2:00p** Drive to **WORCESTER, MA** **2:30-3:00p** School Visit w/ Rep John Tierney **REMARKS** **3:00-4:00p** Drive to Boston/Logan Advance: **TBD** Fly to DCA	21 **TBD** Gridiron Dinner **DNS** Per S Rinck
MC Gumbleton	John Funderburk	Jay Blanchard	MC Gumbleton	Shawn Polk	Kitty Signs	Jay Blanchard
22 **1:30-2:30** Council of Great City Schools **SPEECH** **DNS** Rest of Day PerSR	23 **10:00-11:45pm** Briefing for Testimony **11:45-2:00pm** DNS PerSR **4:00-5:00pm**	24 **9:30-10:00am** Mtg. w/ SC PTA Members **Photo** **10:00-12:00pm** Testimony Prep **1:00-1:45** Mtg	25 **9:00-11:00** DNS per S Rinck **11:00-1:30pm** Testimony Prep **2:00-3:30pm** House Approps.	26 **4:30-6:30 Drive to CARLISLE ,PA** **7:00-9:00p** Revolutionary	27 **CARLISLE,PA** **12:00-2:00pm** Revolutionary Colleges Conference @ Dickinson College **SPEECH** per RWR **2:00-4:00** Drive to	28

Secretary Riley's Schedule March 1998

As of November 21, 2017

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	Hold for Calls PerTP	w/John Buechner, U of CO **3:00-3:30pm** Taping w/ Congresswoman Karen Thurman **3:30-4:00pm** Taping w/ Congressman Jim Davis **4:00-5:00pm** Hold for Calls PerTP	Subcmte. Hearing **TESTIMONY** **3:45-4:15pm** Trip Briefing for PA **4:15-5:15pm** Hold for Calls PerTP **TBD** Radio & TV Correspondents Dinner	Colleges Conf Dinner @ Dickinson College per RWR **RON CARLISLE**	WDC	
Jay Blanchard	Kitty Signs	MC Gumbleton				
29	30 **8:30-10:00am** Assistant Secretaries Mtg. **10:00-10:15am** Junior Classical League **PHOTO** **3:00-4:00pm** Hold for Calls PerTP	31 ***Goals 2000 Anniversary*** ***Baseball Opening Day*** **2:00-3:00pm** Hold for Calls PerTP				