

DEPARTMENT OF EDUCATION

Fiscal Year 2001

**Justifications of Appropriation Estimates
to the Congress**



VOLUME II

DEPARTMENT OF EDUCATION

**Justifications of Appropriation Estimates
to the Congress
Fiscal Year 2001**

CONTENTS

Vocational and Adult Education

Student Financial Assistance

Student Loans Overview

Federal Administration of Postsecondary Education Programs

Federal Family Education Loan Program Account

Higher Education

Howard University

College Housing and Academic Facilities Loans Program

Historically Black College & University Capital Financing Program Account

Education Research, Statistics, and Improvement

Salaries and Expenses Overview

Program Administration

Office for Civil Rights

Office of the Inspector General

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VOCATIONAL AND ADULT EDUCATION

Divider Title: _____

Department of Education
VOCATIONAL AND ADULT EDUCATION

Fiscal Year 2001 Request

CONTENTS

	<u>Page</u>
Appropriations language	M-1
Analysis of language provisions and changes.....	M-3
Amounts available for obligation	M-6
Obligations by object classification	M-7
Summary of changes	M-8
Authorizing legislation	M-10
Appropriations history	M-12
Summary of request	M-13
Activities:	
Vocational education:	
Basic grants	M-17
National programs.....	M-23
Tribally controlled postsecondary vocational and technical institutions	M-32
Tech-prep education	M-35
Adult education:	
State grants.....	M-40
National Institute for Literacy.....	M-47
National leadership activities	M-54
State grants for incarcerated youth offenders	M-61
Literacy programs for prisoners	M-64
State tables.....	M-66

VOCATIONAL AND ADULT EDUCATION

For carrying out, to the extent not otherwise provided, the Carl D. Perkins Vocational and Technical Education Act, the Adult Education and Family Literacy Act, and title VIII-D of the Higher Education Act of 1965, as amended,¹ and Public Law 102-73, [\$1,681,750,000] \$1,751,250,000, of which [\$3,500,000] \$1,000,000 shall remain available until expended,² and of which [\$858,150,000] \$942,650,000 shall become available on July 1, [2000] 2001 and shall remain available through September 30, [2001] 2002³ and of which \$791,000,000 shall become available on October 1, [2000] 2001 and shall remain available through September 30, [2001] 2002⁴: *Provided*, That of the amounts made available for Carl D. Perkins Vocational and Technical Education Act, \$4,600,000 shall be for tribally controlled vocational institutions under section 117⁵: [*Provided further*, That of the { \$450,000,000 for Adult Education State Grants, 30 percent of the amount exceeding the amount appropriated in fiscal year 1999 shall be made available for integrated English literacy and civics education services to immigrants and other limited English proficient populations: *Provided further*, That of the amount reserved for integrated English literacy and civics education, half shall be allocated to the States with the largest absolute need for such services and half shall be allocated to the States with the largest recent growth in need for such services, based on the best available data, notwithstanding section 211 of the Adult Education and Family Literacy Act⁶: *Provided further*, That \$9,000,000 shall be for carrying out section 118 of such act for all activities conducted by and through the National Occupational Information Coordinating Committee:}]⁷ :*Provided further*, That of the funds made available to carry out section 204 of the Perkins Act, all funds that a State receives in excess of its prior-year allocation shall be competitively awarded: *Provided further*, That in making these awards, each State shall give priority to consortia whose applications most effectively integrate all components under section 204(c):⁸ *Provided further*, That of the

amounts made available for the Adult Education and Family Literacy Act, [\$14,000,000] \$89,000,000 shall be for national leadership activities under section 243⁹ and [\$6,000,000] \$6,500,000 shall be for the National Institute for Literacy under section 242:¹⁰ [Provided further, That \$19,000,000 shall be for Youth Offender Grants, of which \$5,000,000, which shall become available on July 1, 2000, and remain available through September 30, 2001, shall be used in accordance with section 601 of Public Law 102-73 as that section was in effect prior to the enactment of Public Law 105-220]¹¹ Provided further, That of the amounts made available for title I of the Perkins Act, the Secretary may reserve up to 0.54 percent for incentive grants under section 503 of the Workforce Investment Act, without regard to section 111(a)(1)(C) of the Perkins Act:¹² Provided further, That of the amounts made available for the Adult Education and Family Literacy Act, the Secretary may reserve up to 0.54 percent for incentive grants under section 503 of the Workforce Investment Act, without regard to section 211(a)(3) of the Adult Education and Family Literacy Act.¹³ (*Department of Education Appropriations Act 2000, as enacted by section 1000(a)(4) of the Consolidated Appropriations Act, 2000 (P.L. 106-113).*)

Note—Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document which follows the appropriation language.

VOCATIONAL AND ADULT EDUCATION

Analysis of Language Provisions and Changes

Language Provision	Explanation
1... <u>and title VIII-D of the Higher Education Act of 1965, as amended</u>	This language allows funding for the State Grants for Incarcerated Youth Offenders program.
2...of which [\$3,500,000] <u>\$1,000,000</u> shall remain available until expended,	This language provides that funds available in this account for the National Assessment of Vocational Education shall be made available on a "no-year" basis.
3... [\$858,150,000] <u>\$942,650,000</u> shall become available on July 1, [2000] <u>2001</u> and shall remain available through September 30, [2001]... <u>2002</u> ...	This language provides that all other funds appropriated in this account, except for the appropriations for Tribally Controlled Postsecondary Vocational and Technical Institutions and State Grants for Incarcerated Youth Offenders, shall become available for obligation on a "forward-funded" basis.
4 [...and of which \$791,000,000 shall become available on October 1, [2000] <u>2001</u> and shall remain available through September 30, [2002] <u>2002</u> :...	This language provides that a portion of the funds become available for obligation on an advance-funded basis.
5 ...\$4,600,000 shall be for tribally controlled postsecondary vocational institutions under section 117:	This language provides a specific amount for Tribally Controlled Postsecondary Vocational and Technical Institutions authorized under section 117 of the Carl D. Perkins Vocational and Technical Education Act, overriding the statutory cap of \$4,000,000.
6[...of the \$450,000,000 for Adult Education State Grants, 30 percent of the amount exceeding the amount appropriated in fiscal year 1999 shall be made available for integrated English literacy and civics education services to immigrants and other limited English proficient populations: <i>Provided further</i> , That of the amount	This language makes available \$25,500,000 for the English Literacy and Civics Education initiative and specifies how the funds are to be distributed to the States. This earmark is no longer needed because the 2001 request would provide funds for this activity under Adult Education National Activities.

VOCATIONAL AND ADULT EDUCATION

Analysis of Language Provisions and Changes

Language Provision	Explanation
reserved for integrated English literacy and civics education, half shall be allocated to the States with the largest absolute need for such services and half shall be allocated to the States with the largest recent growth in need for such services, based on the best available data, notwithstanding section 211 of the Adult Education and Family Literacy Act:...	
⁷ [...\$9,000,000 shall be for carrying out section 118 of such act for all activities conducted by and through the National Occupational Information Coordinating Committee:]	This language earmarks funds to continue support for occupational and employment information activities, the responsibility for which will be transferred from the Department of Labor on July 1, 2000. This earmark is deleted because no funds are requested in 2001 for this activity.
⁸ <u>Provided further, That of the funds made available to carry out section 204 of the Perkins Act, all funds that a State receives in excess of its prior-year allocation shall be competitively awarded: Provided further, That in making these awards, each State shall give priority to consortia whose applications most effectively integrate all components under section 204(c):</u>	This language requires that States that receive FY 2001 Tech-Prep Education increases over their FY 2000 allocations must award the excess funds to local recipients on a competitive basis, and that through this competitive process States will give priority to Tech-Prep consortia that effectively integrate all seven components of Tech-Prep as outlined in Section 204(c) of the Perkins Act.
⁹ ...of the amounts made available for the Adult Education and Family Literacy Act, [\$14,000,000] <u>\$89,000,000</u> shall be for national leadership activities under section 243...	This language provides a specific amount for National Leadership activities authorized under section 243 of the Adult Education and Family Literacy Act, overriding the statutory cap of 1.5 percent (not to exceed \$8 million) of the Adult Education appropriation.

VOCATIONAL AND ADULT EDUCATION

Analysis of Language Provisions and Changes

Language Provision	Explanation
10...~~[\$6,000,000]~~ <u>\$6,500,000</u> shall be for the National Institute for Literacy under section 242:...	This language provides a specific amount for the National Institute for Literacy authorized under section 242 of the Adult Education and Family Literacy Act, overriding the statutory cap of 1.5 percent (not to exceed \$8 million) of the Adult Education appropriation.
11[...\$19,000,000 shall be for Youth Offender Grants, of which \$5,000,000, which shall become available on July 1, 2000, and remain available through September 30, 2001, shall be used in accordance with section 601 of Public Law 102-73 as that section was in effect prior to the enactment of Public Law 105-220]:	This language earmarks funds to Literacy Programs for Prisoners (LPP) out of the funds provided for Incarcerated Youth Offenders and provides the LPP funds on a forward-funding basis. This language is deleted because no funds are requested in 2001 for Literacy Programs for Prisoners. Authority for this program expired in 1998 upon enactment of the Adult Education and Family Literacy Act.
12...<u>of the amounts made available for title I of the Perkins Act, the Secretary may reserve up to 0.54 percent for incentive grants under section 503 of the Workforce Investment Act without regard to section 111(a)(1)(C) of the Perkins Act:</u>	This language overrides the statutory provision that requires the Secretary to set aside 0.54 percent of the Title I appropriation for awarding incentive grants, and it allows the Secretary to determine the amount that is needed for those grants.
13...<u>of the amounts made available for the Adult Education and Family Literacy Act, the Secretary may reserve up to 1.72 percent for incentive grants under section 503 of the Workforce Investment Act, without regard to section 211(a)(3) of the Adult Education and Family Literacy Act</u>	This language overrides the statutory provision that requires the Secretary to reserve 1.72 percent of the Adult Education appropriation for awarding incentive grants, and it allows the Secretary to determine the amount that is needed for those grants.

VOCATIONAL AND ADULT EDUCATION

Amounts Available for Obligation (\$000s)

	1999	2000	2001
Discretionary authority:			
Annual appropriation	\$1,539,247	\$1,681,750	\$1,751,250
Advance for succeeding fiscal year	0	-791,000	-791,000
Advance from prior year	<u>0</u>	<u>0</u>	<u>791,000</u>
Subtotal, budget authority	1,539,247	890,750	1,751,250
Comparative transfer from <u>Higher Education</u> for: State Grants for Incarcerated Youth Offenders and Literacy Programs for Prisoners	<u>16,723</u>	<u>0</u>	<u>0</u>
Subtotal, comparable budget authority	1,555,970	890,750	1,751,250
Unobligated balance, start of year	45,146	59,696	47,797
Unobligated balance expiring	-220	0	0
Unobligated balance, end of year	-59,696	-47,797	-118,297
Comparative transfer of unobligated balance from <u>Higher Education</u> for: Literacy programs for prisoners	<u>-4,723</u>	<u>4,723</u>	<u>0</u>
Total, direct obligations	1,536,477	907,372	1,680,750

VOCATIONAL AND ADULT EDUCATION

Obligations by Object Classification (\$000s)

	1999	2000	2001
Personnel compensation and benefits	\$1,160	\$1,300	\$1,400
Travel	154	50	135
Rental payments to GSA and others	345	253	253
Communications, utilities, and miscellaneous charges	50	76	88
Printing and reproduction	193	22	251
Contractual services and supplies:			
Advisory and assistance services	6,086	5,186	4,364
Other services	864	162	598
Purchases of goods and services	363	6	71
Research and development contracts	6,598	8,549	8,888
Operation and maintenance of equipment	<u>4</u>	<u>10</u>	<u>375</u>
Subtotal	13,915	13,913	14,296
Supplies and materials	24	37	36
Equipment	96	40	10
Grants, subsidies, and contributions	<u>1,520,540</u>	<u>891,681</u>	<u>1,664,281</u>
Total, direct obligations	1,536,477	907,372	1,680,750

VOCATIONAL AND ADULT EDUCATION

Summary of Changes (\$000s)

2000.....	\$1,681,750
2001.....	<u>1,751,250</u>
Net change	+860,500

	<u>2000 base</u>	<u>Change from base</u>
<u>Increases:</u>		
<u>Program:</u>		
Increase for Tech-Prep Education to allow States to fund additional consortia of high schools and community colleges.	\$106,000	+\$200,000
Increase for Adult Education State Grants to help additional numbers of Hispanic and other limited English proficient adults obtain the literacy skills needed to succeed as workers, parents, and citizens.	450,000	+10,000
Increase for National Institute for Literacy for additional communication, capacity-building, and policy analysis activities in support of the national goal that all Americans will be literate and able to compete in the workforce.	6,000	+500
Increase for Adult Education National Leadership Activities to fund initiatives in English as a second language/citizenship education and other areas.	14,000	<u>+75,000</u>
Subtotal, increases		+285,000

Decreases:
Program:

Reduce funding for Vocational Education State Grants in order to shift additional funds to Tech-Prep Education, with its emphasis on preparing students for high-skills careers.	-1,055,650	-200,000
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VOCATIONAL AND ADULT EDUCATION

Summary of Changes (cont.) (\$000s)

	<u>2000 base</u>	<u>Change from base</u>
Eliminate funding for Occupational and Employment Information in order to concentrate Vocational Education funds on other priorities, including Increased support for Tech-Prep Education.	\$9,000	-\$9,000
Reduce funding for State Grants for Incarcerated Youth Offenders in order to concentrate limited discretionary resources on other education priorities.	14,000	-2,000
Eliminate funding for Literacy Programs for Prisoners because this program is no longer authorized, and States are funding correctional education through Adult Education State Grants.	5,000	<u>-5,000</u>
Subtotal, decreases		-216,000
Net change		+69,500

VOCATIONAL AND ADULT EDUCATION

Authorizing Legislation (\$000s)

Activity	2000 Authorized	2000 Estimate	2001 Authorized	2001 Request
Vocational education (CDPVATEA)				
State grants:				
State grants (VATEA Title I and WIA Section 503)	Indefinite ¹	\$1,055,650	Indefinite ¹	\$855,650
National programs (Section 114)	Indefinite	17,500	Indefinite	17,500
Occupational and employment information (Section 114)	Indefinite	9,000	Indefinite	0
Tribally controlled postsecondary vocational and technical institutions (Section 117)	\$4,000	4,600	\$4,000	4,600 ²
Tech-prep education (Title II)	Indefinite	106,000	Indefinite	306,000
Adult education (AEFLA)				
State grants (AEFLA Chapter 2 and WIA Section 503)	Indefinite ³	450,000	Indefinite ³	460,000
National Institute for Literacy (Section 242)	Indefinite ³	6,000	Indefinite ³	6,500
National leadership activities (Section 243)	Indefinite ³	14,000	Indefinite ³	89,000
State grants for incarcerated youth offenders (HEA VIII-D)	Indefinite	14,000 ⁴	Indefinite	12,000
Literacy programs for prisoners (NLA, Section 601)	<u>0⁵</u>	<u>5,000⁴</u>	<u>0</u>	<u>0</u>
Total definite authorization	4,000		4,000	
Total annual appropriation		1,681,750		1,751,250

M-10

VOCATIONAL AND ADULT EDUCATION

Authorizing Legislation (\$000s)

¹ Section 8 of the Perkins Act requires that, of the funds appropriated for Basic Grants, the Secretary shall reserve 0.2 percent for grants to the Territories, 1.25 percent for Indian programs, 0.25 percent for Native Hawaiian programs, and 0.54 percent for incentive grants (as authorized under section 503 of the Workforce Investment Act).

² Appropriations language is proposed to override the authorized amount.

³ Section 211(a) of the Adult Education and Family Literacy Act requires that, of the funds appropriated for Adult Education, the Secretary shall reserve 1.5 percent, not to exceed \$8 million, for the National Institute for Literacy; 1.5 percent, not to exceed \$8 million, for National Leadership Activities; and 1.72 percent to be provided to the Secretary of Labor for incentive grants.

⁴ A total of \$19,000 thousand was provided in 2000 for State Grants for Incarcerated Youth Offenders, of which \$5,000 thousand was earmarked for grants under the Literacy Programs for Prisoners program. These funds are to be used in accordance with section 601 of the National Literacy Act as it was in effect prior to enactment of the Adult Education and Family Literacy Act of 1998.

⁵ The National Literacy Act was repealed August 7, 1998.

VOCATIONAL AND ADULT EDUCATION

Appropriations History (\$000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1992	\$1,264,519	\$1,651,500	\$1,403,333	\$1,435,460
1993	1,447,260	1,509,016	1,492,836	1,474,243
1994	1,447,566	1,474,243	1,483,433	1,481,183
1995	1,447,265	1,456,383	1,475,736	1,473,175
1995 Rescission	-43,888	-119,544	-54,566	-90,614
1996	1,584,414	1,257,134	1,257,888	1,340,250
1996 Advance for FY 1997	0	0	82,750	0
1997	1,420,000	1,329,669	1,341,752	1,486,517
1998	1,565,966	1,506,975	1,487,698	1,507,698
1999	1,544,147	1,532,247	1,502,478	1,539,247
2000	1,750,250	537,247	1,030,650	890,750
2000 Advance for 2001	0	772,000	0	791,000
2001	960,250			
2001 Advance for 2002	791,000			

DEPARTMENT OF EDUCATION FISCAL YEAR 2001 BUDGET REQUEST

(in thousands of dollars)						
<u>Office, Account, Program and Activity</u>		<u>Category Code</u>	<u>1999 Appropriation</u>	<u>2000 Appropriation</u>	<u>2001 President's Request</u>	<u>President's Request Compared to FY 2000 Appropriation</u>
						<u>Amount Percent</u>
OFFICE OF VOCATIONAL AND ADULT EDUCATION (OVAE)						
<u>Vocational and Adult Education</u>						
1. Vocational education (Carl D. Perkins VATEA):						
(a) State grants (VATEA Title I and WIA section 503):						
Annual appropriation.....	D	1,030,650	264,650	264,650	0	0.0%
Advance for succeeding fiscal year.....	D	0	791,000	591,000	0	-25.3%
Subtotal, Basic grants.....		1,030,650	1,055,650	855,650	(200,000)	-18.9%
(b) National programs (section 114).....	D	13,497	17,500	17,500	0	0.0%
(c) Occupational and employment information (section 118).....	D	0 ¹	9,000	0	(9,000)	-100.0%
(d) Tribally controlled postsecondary vocational and technical institutions (section 117).....	D	4,100	4,600	4,600	0	0.0%
(e) Tech-prep education (Title II):						
Annual appropriation.....	D	106,000	106,000	106,000	0	0.0%
Advance for succeeding fiscal year.....	D	0	0	200,000	0	---
Subtotal, Tech-prep.....		106,000	106,000	306,000	200,000	188.7%
Subtotal, vocational education		1,154,247	1,192,750	1,183,750	(9,000)	-0.8%
2. Adult Education (Adult Education and Family Literacy Act):						
(a) State grants (Chapter 2 and WIA section 503).....	D	365,000	450,000	460,000	10,000	2.2%
(b) National Institute for Literacy (section 242).....	D	6,000	6,000	6,500	500	8.3%
(c) National leadership activities (section 243).....	D	14,000	14,000	89,000	75,000	535.7%
Subtotal, Adult education.....		385,000	470,000	555,500	85,500	18.2%
3. State grants for incarcerated youth offenders (HEA VIII-D).....						
D		12,000 ^{2, 3}	14,000 ³	12,000	(2,000)	-14.3%
4. Literacy programs for prisoners (NLA, section 601)*.....						
D		4,723 ^{2, 3}	5,000 ³	0	(5,000)	-100.0%
Total, Appropriation.....		1,555,970	1,681,750	1,751,250	69,500	4.1%
Total, Budget authority.....		1,555,970	890,750 ⁴	1,751,250 ⁴	860,500	96.6%
Current.....		1,555,970	890,750	960,250	69,500	7.8%
Prior year's advance.....		0	0	791,000	791,000	---
TOTAL APPROPRIATION, OVAE.....		1,555,970	1,681,750	1,751,250	69,500	4.1%
TOTAL BUDGET AUTHORITY, OVAE.....		1,555,970	890,750 ⁴	1,751,250 ⁴	860,500	96.6%
Outlays, Total.....		1,364,029	1,546,852	1,641,116	94,264	6.1%
Outlays, current.....		1,362,270	1,546,495	1,087,416	(459,079)	-29.7%
Outlays, advance.....		0	0	553,700	553,700	---
Outlays, mandatory.....		1,759	357	0	(357)	-100.0%

¹ In fiscal year 1999, \$9,000 thousand was appropriated under the Department of Labor for this activity.² Adjusted for comparability. Funds for State Grants for Incarcerated Youth Offenders and Literacy Programs for Prisoners were provided in fiscal year 1999 in the Higher Education account.³ A total of \$16,723 thousand in fiscal year 1999 and \$19,000 thousand in fiscal year 2000 was provided for State Grants for Incarcerated Youth Offenders, which included funding for Literacy Programs for Prisoners.⁴ Excludes an advance appropriation of \$791,000 thousand that becomes available on October 1 of the following fiscal year.

*Authorization as in effect prior to enactment of the Adult Education and Family Literacy Act, which repealed the National Literacy Act.

VOCATIONAL AND ADULT EDUCATION

Summary of Request

In response to rapid changes in the economy and society, America must become a Nation of life-long learners. High school students need to have the skills to enter and succeed in college. Adults need to master basic skills, and, if they have not completed high school, earn a high school degree or equivalent credential to have access to postsecondary education and succeed in the labor market. Immigrant adults, and other adults who have limited English proficiency, need access to opportunities to master English literacy and further their education in order to become full civic participants in a predominantly English-speaking society. Postsecondary students need to master the technical skills to succeed in rapidly changing workplaces. Students of all ages need to have academic knowledge, computer and other technical skills, and problem solving, communications, and teamwork skills. The fiscal year 2001 budget request for Vocational and Adult Education addresses the needs of States, local educational agencies, community colleges, and schools to respond to these new demands.

The 2001 budget includes a total of \$1.751 billion to further State and community efforts to reform their vocational and technical education programs and improve and expand their adult education and literacy systems. The resources provided will enable States and local grantees to implement the various requirements of the Workforce Investment Act and the Perkins Act, particularly those requirements related to ensuring better accountability for results.

Vocational Education

The purpose of the Department's Vocational Education programs is to develop the academic, vocational and technical skills of students in high schools and community colleges by helping States to develop challenging standards, promoting the integration of academic, vocational, and technical instruction, and supporting State and local program improvements. Vocational and technical education prepares students for work and lifelong learning in a technologically advanced society and makes the U.S. more competitive in the world economy. Under the 1998 Perkins Act, States have increased flexibility to design vocational education programs that meet the needs of their students and communities. They also are required to track student skill attainment and further education and employment, in order to ensure student success.

Vocational education touches the lives of more than 90 percent of high school students, and about one-fourth of these students take a series of three or more related vocational classes. States use Federal funds to make investments in technology, instructional strategies, assessments, and professional development to ensure that students in vocational education are succeeding academically and are mastering technical skills.

For fiscal year 2001, the Department requests a total of \$1.184 billion, including \$855.65 million for State Grants, \$4.6 million for Tribally Controlled Postsecondary Vocational and Technical Institutions, \$306 million for Tech-Prep Education, and \$17.5 million for National Programs. State Grants will support State, high school, and community college activities to improve the quality of vocational education and develop systems to track and report post-program education and employment outcomes of vocational students, as required by the legislation. The proposed increase for Tech-Prep will allow States to continue support for, and increase the number of,

VOCATIONAL AND ADULT EDUCATION

Summary of Request (cont.)

consortia working to create integrated secondary-postsecondary education programs that prepare students for high-tech careers.

Funds for Tribally Controlled Postsecondary Vocational and Technical Institutions will provide continued support for the education and training of Indian students. National Programs funds will continue to support research, development, evaluations (including a national assessment) and technical assistance, with an emphasis on teacher training, high school reform, and the development of high-tech career programs. The National Programs activities also include the Department's work with States to develop a national system of performance measures and information necessary to meet the requirements of the Perkins Act and GPRA.

Adult Education

The Department's Adult Education programs address the needs of the millions of Americans who lack the English literacy skills necessary to benefit fully from job training, obtain good jobs, successfully navigate government and other key institutions, and become full participants in their children's education. Under the Workforce Investment Act (WIA), adult education programs are an integral part of the Nation's employment training effort, providing foundation literacy skills and employability training to individuals who are most in need of basic skills. The programs also promote literacy development of parents and children through family literacy.

In his State of the Union address last year, the President announced an adult literacy initiative to close the Nation's skills gap by 2005. To achieve this goal, the Administration developed the following objectives: increasing the number of full-time instructors by 20 percent; doubling the number of instructional hours per student; tripling the number of computer stations; and more than doubling the amount of child care and counseling services available in adult education programs. The Department's 2001 request would move the adult education delivery system towards these goals.

The Department's request for \$555.5 million for adult education includes \$460 million for State grants, \$89 million for National Leadership activities, and \$6.5 million for the National Institute for Literacy. The proposed increase in State grant funds would help States and localities make the investments necessary to meet the objectives of the President's initiative. The request would also provide funds necessary to help States implement the accountability provisions required under the Workforce Investment Act. National Leadership activities would focus on State and local program evaluation, technical assistance to States on program accountability and effectiveness, and development and dissemination of staff development and training models to improve teacher effectiveness. In addition, the Department would use \$75 million of the National Leadership appropriation to continue the English literacy and civics instruction initiative that began in 1999. The National Institute for Literacy would continue to develop its electronic and print communications systems in order to disseminate information quickly to administrators, practitioners, and policymakers; promote literacy awareness; and extend its capacity-building projects to additional States.

VOCATIONAL AND ADULT EDUCATION

Summary of Request (cont.)

State Grants for Incarcerated Youth Offenders

The Department requests \$12 million to continue support for State Grants for Incarcerated Youth Offenders. Although this program is authorized under the Higher Education Act, the Department is again requesting funding under the Vocational and Adult Education account because the program is administered by the Office of Vocational and Adult Education.

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

(Carl D. Perkins Vocational and Technical Education Act, Title I-B and C and Sections 115 and 116, and Workforce Investment Act, Section 503)

FY 2001 Authorization (\$000s): Indefinite¹

Budget Authority (\$000s):

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Annual appropriation	\$264,650	\$264,650	0
Advance for succeeding fiscal year	<u>791,000</u>	<u>591,000</u>	<u>-\$200,000</u>
Total	1,055,650	855,650	-200,000

¹ Section 111(a)(1) of the Perkins Act requires that, of the funds appropriated for State Grants, the Secretary shall reserve 0.2 percent for grants to the Territories, 1.25 percent for grants to Indians, 0.25 percent for grants to Native Hawaiians, and (as authorized under section 503 of the Workforce Investment Act) 0.54 percent for incentive grants.

PROGRAM DESCRIPTION

State Grants support a variety of vocational education programs designed to develop the academic, vocational, and technical skills of students in high schools and community colleges.

Funds are distributed to States, including the District of Columbia, Puerto Rico, and the Virgin Islands, according to a formula based on State per-capita income and population in three age cohorts (15-19, 20-24 and 25-65). In addition, the Pacific territories receive 0.2 percent of the total appropriated for State Grants to operate the same kinds of vocational education programs as the States. Within that set-aside, Guam receives \$500,000 and American Samoa and the Northern Marianas each receive \$190,000. The Pacific Regional Education Lab (PREL) receives the remaining funds generated under this set-aside to make grants for vocational and technical education and training in the Pacific territories, including the former territories of Palau, Micronesia, and the Marshall Islands. Support for these three "freely associated States" continues only through FY 2001.

From the funds appropriated for State Grants, 1.25 percent is set aside for grants to Indian tribes and organizations and 0.25 percent for programs for Native Hawaiians. The Indian program awards grants to federally recognized Indian tribes and tribal organizations. The Hawaiian Natives program awards grants competitively to organizations recognized by the Governor as primarily serving and representing Hawaiian Natives.

The State Grant allocation requires that each State receive at least 0.5 percent of the total. In addition, a hold-harmless provision in the formula ensures that no State's share of the appropriation is less than its share of the FY 1998 appropriation.

States receiving State Grants may use up to 10 percent of funds to provide State leadership activities, such as professional development, expanding the use of technology, assessing

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

vocational education services, integrating academic and vocational education to improve student achievement, delivering vocational education in correctional institutions, and providing services for special populations. At least 85 percent of the funds are allocated to local educational agencies (LEAs) and postsecondary institutions, of which the State may reserve up to 10 percent to make grant awards to local agencies in rural areas, areas with high percentages of vocational and technical education students, areas with high numbers of such students, and communities negatively affected by the changes in the within-State allocations made by the 1998 Perkins Act amendments. The remaining funds flow to LEAs and postsecondary institutions by formula.

States that receive State Grants must use them to support vocational and technical education in high-quality programs that:

- integrate academic and vocational education;
- promote student attainment of challenging academic and vocational and technical standards;
- provide students with strong experience in, and understanding of, all aspects of an industry;
- address the needs of individuals who are members of special populations;
- involve parents and employers;
- provide strong linkages between secondary and postsecondary education;
- develop, improve, or expand the use of technology; and
- provide professional development for teachers, counselors, and administrators.

In 1999, States submitted new State plans to the Secretary of Education for fiscal years 1999 to 2003. To promote continuous program improvement, the Secretary and each State must reach agreement on **annual levels of performance** for a number of "core indicators" specified in the law. The core indicators are in the areas of:

- Student attainment of challenging State-established academic, and vocational and technical, skill proficiencies;
- Student attainment of a secondary school diploma or its recognized equivalent, a proficiency credential in conjunction with a secondary school diploma, or a postsecondary degree or credential;
- Placement in, retention, and completion of, postsecondary education or advanced training, placement in military service, or placement or retention in employment; and
- Student participation in, and completion of, vocational and technical education programs that lead to training and employment in fields that are traditionally dominated by one gender.

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

The annual levels of performance are set out in each State's plan.

Beginning in fiscal year 2000, the Secretary must reserve 0.54 percent of the Vocational Education State Grants appropriation for incentive grants. States will receive grants if they exceed their State-adjusted levels of performance for the Perkins Act, the Adult Education and Family Literacy Act, and employment training services authorized under Title I of WIA. Funds are to be transferred to the Department of Labor to be awarded along with funds reserved from the other two programs. Incentive grants will range from \$750,000 to \$3 million. The Department of Education will work with the Department of Labor to determine which States qualify for the grants. States may use these funds for carrying out innovative programs, consistent with the provisions of any one or more of the three programs (vocational and technical education, adult education, and employment training).

This is a forward-funded program that includes advance appropriations. A portion of the funds becomes available for obligation on July 1 of the fiscal year in which they are appropriated and remain available for 15 months through September 30 of the following year. The remaining funds become available on October 1 of the fiscal year following the appropriations act and remain available for 12 months, expiring at the same time as the forward-funded portion.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996.....	\$972,750
1997.....	1,015,550
1998.....	1,027,550
1999.....	1,030,650
2000.....	1,055,650

FY 2001 BUDGET REQUEST

For fiscal year 2001, the Department requests \$855.65 million for the State Grants program, a decrease of \$200 million from the 2000 appropriation level. An increase of \$200 million is being requested under Tech-Prep Education. This request reflects a priority to fund articulated career and technical education programs that help more students make the transition to postsecondary education, and to fund programs that provide training in the high-tech skills students need to compete in the global economy.

The request for State Grants would help States, local school systems, and postsecondary institutions continue to redesign their vocational and technical education programs in response to the demands of the 1998 Perkins Act. Funding at the requested level will help States undertake the following activities:

- *Implementing educational improvements and reforms:* The 1998 Perkins Act requires States not only to report student outcomes, but also to demonstrate continuous improvements in these outcomes. The Act requires States and communities to ensure program quality, through the implementation of such strategies as the integration of academic and vocational education and the establishment of standards for student attainment of challenging academic and vocational education content. The new

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

legislation will also encourage States to link their vocational and technical education programs to elementary and secondary education reforms and school-to-work systems. The 2001 funds will go, in large part, to fund program improvements, including raising standards and aligning professional development and curriculum with higher standards.

- *Building performance accountability systems:* States and local agencies must implement systems to track student achievement and determine whether vocational education students are achieving to high standards. The majority of States report that they currently do not have the capacity either to measure or collect all of the data specified in the Act. The Department is working with States and other affected "stakeholders" to design a national system to meet the requirements of the Perkins Act and the performance data required for GPRA. State and local programs may use 2001 funds to invest in appropriate computer hardware and software to track students and report outcome information, and to train local teachers and administrators in how to use management information systems to improve programs. These resources are needed especially at the local level, as local recipients' ability to measure, document, collect, and report data is critical to ensuring that the data reported to the States are high quality and valid.
- *Promoting school-to-work strategies:* The School-to-Work Opportunities Act (STWOA) has supported State and local development of strategies for educational improvement, including integrating challenging academics into career clusters, facilitating secondary-to-postsecondary transitions, and engaging students in contextual learning. Perkins Act funds, along with Workforce Investment Act youth funds, will be a major source of funds that States and localities can use for sustaining the school-to-work systems after the STWOA sunsets in 2001.
- *Supporting one-stop delivery systems:* Funding for State Grants will help support State and local efforts to offer vocational education services through the one-stop delivery systems authorized in the Workforce Investment Act. State and local officials will work through the one-stop centers to connect employment, education and training services into a coherent network of resources at the local, State and national levels.

The request will also provide funds for incentive grant awards to States that exceed their adjusted levels of performance in WIA Title I, the Adult Education and Family Literacy Act, and the Perkins Act. The Department would reserve up to 0.54 percent of vocational education for this purpose, along with 0.54 percent of the Adult Education appropriation. (Appropriations language is proposed to override the 1.72 percent set-aside level for Adult Education.) These percentage set-asides are consistent with the Department of Labor's reserve under WIA Title I for incentive grants. The number of States that will qualify for incentive grants in 2001 cannot be determined until the States submit their performance data at the end of the program year. After incentive grants are made at the level specified by WIA Section 503, any funds remaining from the set-aside of vocational education funds will be reallocated to all States for State Grant activities.

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. (The State Grants and Tech-Prep Education programs share a common set of indicators.) Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To increase access to and improve educational programs that strengthen education achievement, workforce preparation, and lifelong learning.

Objective: Ensure that vocational concentrators, including special populations, will achieve high levels of proficiency in math, science, and English.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Academic attainment: By 2002, the percentage of vocational concentrators, including special populations, meeting the core curriculum standards, will increase from baseline data. 1990 <i>Baseline:</i> 18.5%; 1994: 33.5%.	33.5%	35%	36.5%	38%

For the above indicator, the Department considers students who complete three or more "Carnegie units" in a specific single labor market preparation program area to be vocational "concentrators." The indicator measures the extent to which these concentrators, including students from targeted populations, seeking a diploma take the following curriculum during their 4 years of high school: 4 years of English; 3 years of mathematics; 3 years of science; and 3 years of social studies.

The baseline data for this indicator are drawn from the 1992 National Longitudinal Study "Second Follow-up and High School Transcript Files" and the 1994 National Assessment of Educational Progress (NAEP). In 1990, 18.5 percent of vocational concentrators were meeting the core curriculum standards. The Department's goal is to double the proportion of vocational concentrators meeting these standards by 2002. The Department will measure progress on this indicator using data from the 1998 National Assessment of Educational Progress transcript study.

The Department plans, within the next few years, to replace this indicator with a better measure of academic attainment—performance on State-established academic proficiencies—as specified in the 1998 Perkins Act. Although the new Act specifies core indicators for State performance reporting, States are only beginning to develop capacity to collect and assess the quality of data needed to meet the new requirements. The Department worked intensively with States in 1999 to identify the challenges and limitations to collecting, reporting, and analyzing State data. This technical assistance effort will continue in 2000. The use of State data to set performance targets and report progress will provide a clearer link between the Federal vocational education investment and the strategies and results at the State and local levels.

VOCATIONAL AND ADULT EDUCATION

Vocational education: State grants

Objective: Ensure that vocational concentrators, including special populations, make transitions to continuing education, work, or other career options.

<u>Indicator</u>	<u>1999</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>
Secondary student outcomes: An increasing proportion of secondary school "concentrators," including special populations, will: (1) attain high school diplomas (<i>Baseline to be established</i>), (2) enter postsecondary programs (<i>1992 Baseline: 56 percent</i>), or (3) attain employment (<i>1992 Baseline: 77 percent</i>).				

This indicator is intended to measure the achievement rates of secondary school students who are engaged in a sequence of courses to prepare them for further learning or employment in a particular occupational area. The Department collected baseline data for this indicator from follow-ups to the 1994 National Education Longitudinal Study (NELS) of 1992 graduates and the National School-to-Work Evaluation Survey of Seniors in eight States. Desired targets are not provided at this time, however, because the data sets for this indicator will change in 2000. Future targets will be based on data collected from the States.

PROGRAM OUTPUT MEASURES

(\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
State grants	\$1,013,129	\$1,032,003	\$836,483
Range of awards to States	\$4,215-\$109,111	\$4,215-\$112,551	\$4,215-\$108,186
Territories allocation	\$880	\$880	\$880
PREL	\$1,181	\$1,231	\$831
Indian set-aside	\$12,883	\$13,196	\$10,696
Number of grants	35	35	35
Average grant	\$368	\$377	\$306
Native Hawaiian grant	\$2,577	\$2,639	\$2,139
Incentive grants	0	\$5,701	\$4,621

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

(Carl D. Perkins Vocational and Technical Education Act, Section 114)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$17,500	\$17,500	0

PROGRAM DESCRIPTION

National Programs authorizes research, demonstration, dissemination, evaluation, and assessment activities aimed at identifying best practices in vocational and technical education. Within the research authority, the Perkins Act calls for the operation of one or more National center(s) for research in vocational and technical education, and a national assessment of vocational and technical education programs operated under the Perkins Act.

The previous National Center for Research in Vocational Education (NCRVE), which operated through December 1999, provided teachers, administrators, and policy-makers with student-centered research on a variety of topics, including the integration of academic and vocational education, tech-prep programs, the needs of special populations, performance measures and standards, work experience, and school-to-work programs. NCRVE also carried out "implementation research" that provided guidance on how to translate the results of research into practice, focusing on investigating exemplary programs that can be used to illustrate "best practices."

The Department recently funded two new centers to succeed NCRVE. Both centers are part of a five-university consortium that includes the University of Minnesota, Ohio State University, the University of Illinois, Oregon State University, and Pennsylvania State University. The National Research Center for Career and Technical Education, led by the University of Minnesota, and the National Dissemination Center for Career and Technical Education, led by Ohio State University, will provide leadership in emerging areas of practice, such as contextual learning, and translate research into teaching strategies that educators can use. The agenda proposed by the new centers focuses on five themes: integration of academic and technical education; educational technology and distance learning; accountability; knowledge and skills needed by employers; and professional development.

In addition to supporting the national centers, the Department conducts a variety of research activities to promote excellence in vocational education. Current activities include the following:

- **High School Reform.** The Department is supporting the "New American High Schools" (NAHS) initiative to promote comprehensive high school reform strategies that will strengthen the teaching and learning process and improve student achievement. NAHS activities are designed to identify and document the work of high schools that have adopted a variety of education reform strategies. NAHS sites are improving instructional techniques,

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

utilizing technology, improving professional development, using community service and work-based experiences to enhance classroom learning, and developing partnerships with employers, postsecondary institutions, community leaders, and parents.

- **Professional Development.** The Department is supporting the development of two teacher preparation and development initiatives. These initiatives are designed to inform the field about how to prepare teachers to use contextual teaching and learning strategies to improve student achievement.
- **State Performance Measures.** The Department is working with State vocational education agencies to facilitate development of a unified system of core performance measures that is consistent with the systems States are developing for WIA Title I and Adult Education.
- **Career Clusters.** The Department is supporting the integration of national voluntary academic and industry-based skill standards into State standards systems and school-to-work systems. The Department is currently supporting initiatives in six career clusters: health technology; advanced manufacturing; arts and communications; education and training; information technology; and transportation, distribution and logistics. This research is focusing, in part, on innovative ways to involve employers, labor organizations, parents, teachers, and students in ensuring the development of effective career pathways that will enhance a student's ability to meet academic and industry-based skill standards. An analysis of the first two years of activities found that they had successfully facilitated the formation of broad-based partnerships among education and employers, developed multi-State agreements on standards, and developed standards-based curricula and assessments.

Funds for Vocational Education National Programs are provided on a forward-funded basis. The 2001 appropriation will become available on July 1, 2001, and remain available for obligation until September 30, 2002.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996	\$4,998
1997	13,497
1998	13,497
1999	13,497
2000	17,500

FY 2001 BUDGET REQUEST

For fiscal year 2001 the Department requests \$17.5 million for research and evaluation activities under the National Programs authority, the same as the 2000 appropriation, to assist vocational educators' program improvement efforts. These funds will provide national support for State and local reforms through applied research, development, assessment, accountability systems, best practices, and program improvement. In carrying out these initiatives the

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

Department will work with States and local institutions to ensure that the research, technical assistance, and information systems meet their needs.

The Department will focus its funds on national support activities that research suggests will result in improvements in student attainment of challenging academic, technical, and work-readiness competencies. Funds will support the following major themes and activities:

Promoting Education Reform and Student Achievement

- **High school reform.** The Department would use \$4.5 million in FY 2001 to continue the New American High Schools (NAHS) initiative and support successful high school improvement efforts throughout the Nation. The Department will use funds to identify additional NAHS sites and support technical assistance activities to help other schools adopt NAHS reform measures. In addition to providing direct assistance to schools, the Department will support activities to evaluate and disseminate information about the reform approaches that have been adopted by the NAHS sites. The Department will also promote strong partnerships between high schools and colleges through a networking project in which universities are joined in partnership with local, urban school programs.

Also, the Department will use 2001 funds to continue research activities to evaluate the short-term and long-term outcomes of the New American High Schools initiative. The evaluation will examine the extent to which schools are implementing reform strategies and the extent to which these strategies improve student outcomes, particularly postsecondary education and employment outcomes.

- **Development of high-tech career clusters.** The Department would use \$2.5 million in 2001 to continue to support the formation of partnerships between secondary and postsecondary institutions, academic and vocational education, industry, labor organizations, and other community and local partners to create career clusters in high-technology industries. These partnerships would identify and coordinate existing national, State, and regional efforts to move from "occupation-specific" programs to broad career clusters that address all aspects of the industry and improve student achievement. FY 2001 funds would support continued development of career clusters in: arts and communication; education and training; transportation; and information technology services. Funds would also be used to begin work on agriculture, bioscience and environmental science, and scientific research and technical services.
- **Professional development and teacher preparation.** In support of the Department's efforts to promote improved professional development, \$2 million would be used to support teacher education initiatives that focus both on the preparation of new teachers and on in-service professional development of current teachers. Fiscal year 2001 funds would be used to encourage additional teacher preparation institutions to promote the use of contextual teaching and learning strategies, specifically the integration of academic and vocational education. In addition, as the Department continues to identify model teacher preparation programs, fiscal year 2001 funds would be used to promote these model programs.

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

Addressing Perkins Program Performance and Accountability Requirements

The Department would use \$2.3 million in 2001 for initiatives to help States collect and report information on their program performance goals. The Department would use this information to measure progress against the vocational education program performance indicators.

- **Technical assistance to develop State and local accountability and performance systems.** Research conducted by the Department indicates that many States are not prepared to implement the accountability requirements specified in the Perkins Act. Although all States have the capacity to report on some of the core indicators, none are able to report on all three indicators. A total of \$2 million would support continued technical assistance to help move the States toward full implementation of the accountability systems and make systems consistent across States.
- **GPRA-related surveys.** \$300,000 would support the National Longitudinal Survey of Youth (NLSY) to continue to include items related to participation and outcomes of youth in school-to-work and vocational education programs.

Conducting Research and Evaluation

- **National Research Centers.** The Department would use \$4.5 million for the third year of 5-year awards to the national research and dissemination centers. Continued support for these centers will allow the Department to address several needs that have been identified by States and practitioners, including:
 - Standards and assessment;
 - Professional development and teacher recruitment;
 - Vocational education in education reform—curriculum, governance, and finance;
 - Program accountability; and
 - Development of curricula that promote high academics, access to postsecondary education, and career preparation.
- **National Assessment of Vocational Education (NAVE).** The Department would use \$1 million in FY 2001 to complete the national assessment which is being launched with FY 1999 funds. The NAVE will analyze the extent to which State and local agencies improve the academic preparation of vocational students and their access to postsecondary education; the success of students in meeting challenging academic and skill standards; the effectiveness of the reauthorized Act's provisions for systems improvement, and local and State assessment and accountability, including performance goals and indicators. The NAVE will also provide information needed for GPRA purposes.

As in 2000, the Department proposes that the funds for NAVE be appropriated on a "no-year" basis so that they can be expended as needed over the course of the assessment.

The Department would use remaining \$700,000 in FY 2001 funds for other discretionary research and evaluation activities, including evaluation of Tech-Prep education, as well as other multi-agency initiatives and special projects.

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To increase access to and improve educational programs that strengthen educational achievement, workforce preparation, and lifelong learning.

Objective: Increase the use of research findings to inform program direction and to improve State and local practices.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Promote quality research. By 2001, the percentage of customers being "very satisfied" with products and services received from NCRVE will increase to 85%. <i>1998 baseline: 81%</i>	83%	83%	85%	85%

The Department has developed this indicator to measure the Department's progress on increasing the use of vocational education research to inform policy and practice. With this indicator, the Department will measure the extent to which NCRVE's research and products demonstrate: (a) relevance, defined as research that addresses important and compelling and current issues in vocational education; (b) timeliness, defined as on-time delivery of products and, (c) quality, defined as providing leadership in developing the focus of studies.

The Department will track progress on this objective by conducting an annual review of consumer satisfaction with the National Centers' research products. Effectiveness of products and services will be determined through review of quarterly and yearly progress reports, assessment of the quality and timeliness of products developed by the Centers (through expert peer review), and through review of the extent to which findings are published or cited in refereed professional journals.

Although the Department recently funded new centers for research and dissemination, performance targets for 2000 and 2001 are based on actual performance data from the previously funded NCRVE. During the transition year to the new centers, the Department expects that the new centers will achieve at least the same minimum level of customer satisfaction as the previous center. Through the competition for the new centers, the Department heightened its emphasis on both the development of practitioner-oriented products and services and on effective dissemination of these products.

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

Objective: Improve and expand the use of effective strategies that promote secondary and postsecondary reforms.

<u>Indicator</u>	<u>1999</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>
New American High Schools. By fall 2001, 200 high schools will receive recognition for implementing New American High Schools strategies that combine career and academic preparation—often in smaller learning environments—to prepare all students for college and careers. <i>1998 baseline: 17</i>	100	150	200	200

In 1998, 17 schools were actively participating in the New American High Schools (NAHS) initiative. The Department expects that, by 2001, approximately 200 high schools will adopt the reform elements in the NAHS model. The Department will measure progress toward this indicator by analyzing data collected by the NAHS project sites, as well as semi-annual and annual project reports, and through the Department's own third-party evaluation of the projects.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Professional Development. By 2001, 3,000 prospective and current teachers will be trained to teach academic and technical coursework in the context of real-life applications and careers (hereafter referred to as contextual teaching and learning or CTL approaches). <i>1999 Baseline: 750</i>	750	1,800	3,000	3,000

This indicator will allow the Department to track the progress of the seven universities that, through ED contracts, are training prospective and current teachers on CTL approaches. These universities received their first year of funding in 1998. The Department will begin sharing with all States the resources developed by the contractors so that many more teachers will be trained to implement CTL approaches. The Department will gather data for this indicator from its evaluation contract.

PROGRAM OUTPUT MEASURES

(\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Education Reform:			
New American High Schools	\$1,950	\$4,000	\$4,500
Career Clusters	1,500	1,000	2,500
Teacher/Professional Development	1,400	1,500	2,000

VOCATIONAL AND ADULT EDUCATION

Vocational education: National programs

PROGRAM OUTPUT MEASURES (cont.) **(\$000s)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Program Performance and Accountability:			
Technical assistance project	\$1,000	\$1,000	\$2,000
GPRA surveys	0	1,000	0
NLSY	0	0	300
Research and Evaluation:			
National Research and Dissemination Centers	4,500	4,500	4,500
National Assessment (NAVE)	2,000	3,500	1,000
Other discretionary research and development	1,147	1,000	700

VOCATIONAL AND ADULT EDUCATION

Vocational education: Occupational and Employment Information

(Carl D. Perkins Vocational and Technical Education Act, Section 118)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$9,000	0	-\$9,000

PROGRAM DESCRIPTION

Occupational and Employment Information activities make up-to-date career information and guidance services available to students and adults through a network of State agencies. The previous Perkins Act and the Job Training Partnership Act authorized the National Occupational and Information Coordinating Committee (NOICC) and its counterpart State committees (SOICCs). Funding was appropriated, in most recent years, through the Department of Labor for this program. The new Perkins Act transfers the responsibility for occupational and employment information assistance activities to the Department of Education, effective on July 1, 2000.

Section 118 of the new Act authorizes the Secretary to provide assistance to an entity to:

- (1) provide technical assistance to State occupational and employment information entities;
- (2) disseminate information promoting replication of high-quality occupational and employment information practices; and
- (3) develop and disseminate products and services related to occupational and employment information.

The Act also authorizes the national entity to use at least 85 percent of the funds appropriated under Section 118 to award grants to State entities to carry out State-level occupational and employment information activities. State entities are to be designated jointly by the Governor and the agency that administers Perkins Act activities in the State. The State entities are required to perform the following activities:

- Provide support for career guidance and counseling programs;
- Make available, and improve access to, career information and planning resources;
- Equip teachers, administrators, and counselors with the knowledge and skills they need to assist students and parents;
- Tailor career-related educational resources and training to the needs of the State;
- Improve coordination and communication among workforce development administrators and planners;

VOCATIONAL AND ADULT EDUCATION

Vocational education: Occupational and Employment Information

- Provide ongoing means for customers to provide feedback on the State entity's products and services, and to update resources, as appropriate, to meet customers' needs.

Funds for occupational and employment information are provided on a forward funded basis. The 2000 appropriation will become available on July 1, 2000, and remain available until September 30, 2001.

This program was previously administered as the National Occupational Information Coordinating Committee. The program will be transferred to the Department of Education in July 2000.

Funding levels for the past 5 years were as follows:

	(\$000s)
1996.....	\$8,000 ¹
1997.....	8,000 ¹
1998.....	9,000 ¹
1999.....	9,000 ¹
2000.....	9,000

¹ Funds were provided through the Department of Labor appropriation.

FY 2001 BUDGET REQUEST

The Department requests no funds for occupational and employment information activities. The limited Federal discretionary budget precludes increases or even level funding for some programs in order to provide increases for the highest education priorities. The Department will concentrate 2001 funds on other priorities within the vocational education account, including increased support for Tech-Prep Education programs.

PROGRAM OUTPUT MEASURES

(\$000s)

	<u>1999¹</u>	<u>2000</u>	<u>2001</u>
State activities:			
State grants	\$6,750	\$7,650	0
Number of grants	56	56	0
Range of grants	\$100-300	\$100-300	0
National activities:	\$2,250	\$1,350	0

¹FY 1999 funds were provided under the Department of Labor's appropriation.

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tribally controlled postsecondary vocational and technical institutions

(Carl D. Perkins Vocational and Technical Education Act, Section 117)

2001 Authorization (\$000s): \$4,000

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$4,600 ¹	\$4,600 ¹	0

¹Appropriation language for 2001 is proposed to override the authorized amount.

PROGRAM DESCRIPTION

This program provides grants for the operation and improvement of tribally controlled postsecondary vocational and technical institutions to ensure continued and expanded educational opportunities for Indian students and to improve and expand the physical resources of those institutions.

In order to receive a grant, a tribally controlled postsecondary vocational and technical institution must:

- Be formally controlled (or have been formally sanctioned or chartered) by a governing body of an Indian tribe or tribes;
- Offer a technical degree or certificate granting program;
- Demonstrate that it adheres to a philosophy or plan of operation that fosters individual Indian economic opportunity and self-sufficiency, including programs that relate to stated tribal goals of developing individual entrepreneurship and self-sustaining economic infrastructures on reservations;
- Have been operational for at least 3 years;
- Be accredited, or be a candidate for accreditation, by a nationally recognized accrediting authority for postsecondary vocational education; and
- Enroll at least 100 full-time equivalent students, the majority of whom are Indians.

Funds may be used by a grantee for costs connected with training teachers, providing instructional services, purchasing equipment, administration, and operating and maintaining the institution. New award competitions are held every 5 years. Institutions selected for funding in the preceding competition receive priority for awards in subsequent years.

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tribally controlled postsecondary vocational and technical institutions

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996	\$2,919
1997	2,919
1998	3,100
1999	4,100
2000	4,600

FY 2001 BUDGET REQUEST

For fiscal year 2001, the Department requests \$4.6 million, the same as the 2000 appropriation. The tribally controlled postsecondary vocational and technical institutions that receive funds under this program serve a population that is among the most disadvantaged in this country. These institutions receive little financial support from such other sources as student tuition, endowments, or State assistance and must rely on Federal assistance to help them provide vocational education services to Indians.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To increase access to and improve vocational education that will strengthen workforce preparation, employment opportunities, and lifelong learning in the Indian community.

Objective: Ensure that vocational students served in Tribally Controlled Postsecondary Vocational Institutions make successful transitions to work or continuing education.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Postsecondary outcomes: By fall 2001, 27% of vocational students will receive an AA degree or certificate. <i>1999 Baseline: 23%.</i>	23%	25%	27%	27%

Tribally controlled postsecondary vocational institutions provide performance reports to the Department on an annual basis. The Department will analyze data from these reports to

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tribally controlled postsecondary vocational and technical institutions

measure progress on this indicator. In addition, the Department will work with grantees to improve their data collection systems.

PROGRAM OUTPUT MEASURES **(\$000s)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Number of awards	2	2	2

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tech-prep education

(Carl D. Perkins Vocational and Technical Education Act, Title II)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Annual appropriation	\$106,000	\$106,000	0
Advance for succeeding fiscal year	<u>0</u>	<u>200,000</u>	<u>+\$200,000</u>
Total	106,000	306,000	+200,000

PROGRAM DESCRIPTION

The Tech-Prep Education program provides grants to States, which provide subgrants to consortia of local educational agencies and postsecondary institutions. Each Tech-Prep program is carried out under an articulation agreement between the participants in the consortium, and consists of at least 2 years of high school followed by 2 years or more of higher education or apprenticeship. Tech-prep programs provide a common core of required proficiencies in mathematics, science, reading, writing, communications, and technological skills. The programs are designed to lead to an associate's degree or a postsecondary certificate in a technical career field and, where appropriate, link to courses of study at 4-year institutions.

The purpose of Tech-Prep is to develop a structural link between secondary and postsecondary institutions that integrates academic and vocational education and better prepares students to make the transition from high school to college and from college to careers. The 1998 Perkins Act adds an increased emphasis on connections to 4-year institutions and courses of study and expands consortium membership to include both institutions that award a baccalaureate degree and employer or labor organizations as allowable members. The Act provides increased program flexibility in exchange for greater accountability; for example, States are now required to submit annual reports on effectiveness. In addition, the Act authorizes a demonstration program to locate high schools on community college campuses.

Tech-Prep has laid a foundation for education reform initiatives, including school-to-work systems. Program features envisioned in the School-to-Work Opportunities Act, such as career exploration and counseling, defined programs of study with a career focus, integration of academic and vocational education, facilitation of entry into postsecondary education, and matching students with work-based opportunities, are evident in Tech-Prep programs. Tech-Prep will continue to provide funds for implementation and operation of many components of school-to-work systems after States' School-to-Work Implementation Grants end.

Tech-Prep is affecting vocational education and, in some States, high school education generally. The national study of early implementation of Tech-Prep found that about one-half of tech-prep consortia were undertaking improvements to existing vocational education programs. The most common strategy is to train selected teachers in applied approaches to math,

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tech-prep education

science, and English, and encourage vocational students to take academic classes. Most other tech-prep consortia promote a subset of the tech-prep strategies for the benefit of all students, such as applied learning, planning for college and career, integration of academic and vocational education, and secondary-to-postsecondary integration and articulation that allows high school students to receive college credits. The remaining consortia create structured, comprehensive courses of secondary and postsecondary study for students specializing in selected technical occupational or industry areas.

The Department distributes Tech-Prep funds to States under the Vocational and Technical Education State Grant formula. States have the flexibility to target their Tech-Prep funds to quality programs by awarding funds to local consortia through a competition, or they may subgrant the funds on a formula basis. One-half of the States have chosen to award funds competitively; the other half use a formula.

Under the 1998 Perkins Act, Tech-Prep programs are subject to the new accountability measures. These measures require Tech-Prep programs to continuously improve students academic and technical skills proficiencies and their placement and retention in employment.

This is a forward-funded program that includes an advance appropriation proposed for fiscal year 2001. A portion of funds would become available for obligation on July 1, 2001, and remain available for 15 months through September 30, 2002. The remaining funds would become available on October 1, 2001, and remain available for 12 months, expiring at the same time as the forward-funded portion.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996.....	\$100,000
1997.....	100,000
1998.....	103,000
1999.....	106,000
2000.....	106,000

FY 2001 BUDGET REQUEST

The Department requests \$306 million for Tech-Prep, a \$200 million increase over the 2000 appropriation, in response to the growing demand for Tech-Prep education across the Nation, and because the approach taken in Tech-Prep represents the most promising method for reaching the GPRA indicators the Department has established for vocational education. The \$200 million increase is requested as an advance appropriation that would become available on October 1, 2001, and remain available for 12 months, expiring at the same time as the \$106 million forward-funded portion.

Tech Prep represents the new vision for vocational education, leveraging changes in vocational education that promote students' academic achievement and preparation for further education. Tech-Prep promotes quality reforms to vocational education programs in high-tech career fields that promise high-skill, high-wage jobs. The reforms promoted are those Congress emphasized in the 1998 Perkins Act: for example, development of (and teacher training in) applied

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tech-prep education

instructional methods for academic classes; more successful entry into postsecondary education; and an increased emphasis on academics, especially math, science, and technology. Recent research on Tech-Prep shows improvements in these three subjects as the primary educational outcome emphasized by programs. Tech-Prep also successfully brings employers, secondary and postsecondary institutions, and both academic and technical educators together in partnership, leveraging resources and support for education reforms.

The need for workers in high-paying but low-skilled jobs, such as traditional manufacturing, has declined over the past decade. Skills needed in new industries, such as advanced manufacturing, have increased, and many more jobs are in the information, technology, and communications sectors, which require advanced skills and education. As a result, the earnings gap between those with and those without postsecondary education has grown: According to the Community College Research Center's 1999 study, men with Associate degrees earn 18 percent more, and women 23 percent more, than high school graduates. Economic returns to certificates and Associate degrees in technical fields such as computers, engineering, and health technician occupations, are much higher than these averages. Tech-Prep promotes postsecondary education by creating links between secondary and postsecondary education, and easing students' transition to college.

The request will allow States to expand significantly the number of Tech-Prep consortia nationally and help States and communities continue their school-to-work system-building efforts. In addition to funding more consortia, the request will provide Tech-Prep consortia with the resources they need to improve connections to 4-year postsecondary institutions and courses of study, make effective use of educational technology and distance learning, and integrate work-based learning opportunities into local programs. In addition, the request will help States to continue evaluating Tech-Prep programs, support professional development, and expand employer involvement.

The Department requests appropriations language for Tech-Prep that requires States to use their FY 2001 allocation increases to award subgrants on a **competitive basis** to consortia that are implementing **comprehensive** Tech-Prep strategies. This competitive allocation process will allow States to target funds to consortia with the best Tech-Prep plans and programs. Requiring that the increase go to consortia implementing comprehensive Tech-Prep strategies supports research findings that suggest that a comprehensive course of study, with careful links between secondary and postsecondary education, has the greatest potential to improve postsecondary enrollments and postsecondary outcomes for the secondary and postsecondary students.

Tech-Prep programs have become, in a number of States, key components of broader education reforms. By making academic classes more applied, and guiding vocational students into more academic classes, Tech-Prep programs have helped ensure that more students obtain both technical skills and a strong academic education. By developing partnerships between secondary and postsecondary education and between schools and employers, they have helped smooth the transition to college and to the workforce. The national evaluation of the program (completed in 1998) found that Tech-Prep students enter higher education and training at substantially higher rates than do students in the general high school track. The increase requested for 2001 would help States and Tech-Prep programs sustain this progress.

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tech-prep education

Many States have seen the benefits of Tech-Prep education. Data from program sites indicate that Tech-Prep has contributed to reduced student dropout rates, higher test scores, increased enrollments in postsecondary education, and high employer satisfaction. For example, the Boeing Company hired Tech-Prep students and reported that these students scored an average of 25 points higher on entry-level assessments than did other new hires.

The Department is using National Programs funds to continue researching how Tech-Prep contributes to educational reform. In addition, many States are conducting or designing statewide evaluations of Tech-Prep education.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Vocational Education State Grants and Tech-Prep share common performance objectives and indicators; these indicators are also discussed under State Grants. The following indicator is especially tied to the objectives of Tech-Prep:

Performance goal: Increase access to and improve educational programs that strengthen education achievement, workforce preparation, and lifelong learning.

Objective: Ensure that vocational concentrators, including special populations, make transitions to continuing education, work, or other career options.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Postsecondary student outcomes: An increasing proportion of postsecondary vocational students, including special populations, will have positive placement in one or more of the following: (1) Retention in, and/or completion of, a postsecondary degree or certificate (1992 baseline: 48 percent); or (2) Placement in military service (Baseline to be established in 2000), or (3) Placement or retention in employment (Baseline to be established in 2000).				

The baseline for remaining in or completion of a postsecondary degree or certificate is based on the educational attainment in 1992 -- 10 years after graduating from high school -- of 1982

VOCATIONAL AND ADULT EDUCATION

Vocational education: Tech-prep education

high school graduates. In that class, 48 percent of postsecondary vocational concentrators had attained some type of degree or certificate, including 13 percent who had attained certificates, 13 percent who had received AA degrees, and 22 percent who had BA degrees (Source; High School and Beyond 4th follow-up).

There is no current baseline for placement in military service and employment. Data in these areas will be obtained from State performance reports.

The 1998 Perkins Act requires all States to collect and report data on postsecondary program placement, including placement for special populations. The shift to reliance on State accountability reporting will require the Department to set new targets for the above indicator in 2000. Performance targets will be based on data collected from a national sample of States.

PROGRAM OUTPUT MEASURES

(\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Number of grants	53	53	53
Range of State grants	\$59-11,633	\$62-12,166	\$155-34,073

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

(Adult Education and Family Literacy Act, Chapter 2)

FY 2001 Authorization (\$000s): Indefinite¹

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$450,000 ²	\$460,000 ³	+\$10,000

¹ Section 211(a) of the Adult Education and Family Literacy Act requires that, of the funds appropriated for Adult Education, the Secretary shall reserve 1.5 percent, not to exceed \$8 million, for the National Institute for Literacy; provide 1.5 percent, not to exceed \$8 million, for National Leadership Activities; and 1.72 percent be provided to the Secretary of Labor for incentive grants.

² In fiscal year 2000, 30 percent of the increase over FY 1999 is reserved for English Literacy and Civics Education grants. This set-aside would not continue in 2001. Funds for this activity in 2001 are requested under Adult Education National Leadership Activities.

³ Appropriations language is requested for FY 2001 to override the 1.72 percent set-aside amount for Incentive Grants to make it consistent with the 0.54 percent set-aside under the Perkins Act.

PROGRAM DESCRIPTION

Under the Adult Education and Family Literacy Act, adult education grants to the States and Outlying Areas support programs that assist adults to become literate and obtain the knowledge and skills necessary for employment and self-sufficiency; assist adults who are parents to obtain the educational skills necessary to become full partners in the educational development of their children; and assist adults in the completion of a secondary education. In distributing funds, States must give equitable access to all types of agencies and institutions that have the ability to provide adult education programs.

The Department awards grants on a formula basis to States and Outlying Areas with approved State plans. The formula provides an initial allotment of \$250,000 for each State and \$100,000 to each Outlying Area. The additional allotments are distributed on the basis of the population aged 16 and older who are without a high school diploma or the equivalent, who are not currently required to be enrolled in school, and who are not currently enrolled in secondary school. The Act includes a "hold harmless" provision that holds States at 90 percent of the previous year's allotments.

States may use up to 12.5 percent of their allotments for State leadership activities. States may use an additional 5 percent or \$65,000 (whichever is greater) for State administration. At least 82.5 percent of a State's allotment must be used for local awards; of this amount, up to 10 percent is to be used to educate incarcerated and other institutionalized individuals. Of the funds provided by the State agency to the eligible institutions, at least 95 percent must be used for instructional activities.

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

States and localities must give priority to adult education and literacy activities that, among other things, are built on a strong foundation of research on effective practices and that effectively employ technology, including the use of computers. States are also required to give preference to eligible providers in local areas with high concentrations of poverty or low levels of literacy. More specifically, States, in awarding funds to local providers, must consider the extent to which these providers offer programs that:

- Have measurable goals for client outcomes;
- Can demonstrate past effectiveness in improving the literacy skills of adults and families;
- Serve individuals who are most in need of literacy services, including individuals who are low-income or have minimal literacy skills;
- Are of sufficient intensity and duration for participants to achieve substantial learning gains;
- Are built on a strong foundation of research about effective practices;
- Provide learning in real-life contexts;
- Are staffed by well-trained instructors, counselors, and administrators;
- Coordinate with other available resources in the community;
- Offer flexible schedules and support services, such as child care and transportation;
- Maintain a high-quality information management system; and
- Serve communities with a need for English literacy programs.

In addition, State leadership funds are available for technology assistance, including professional development, to enable local providers to improve the quality of their adult education. Incorporating technology into instruction is also a priority for local program expenditures.

To promote continuous program improvement, the Secretary and each State must reach agreement on annual levels of performance for a number of “core indicators” specified in the law:

- Demonstrated improvements in literacy skill levels in reading, writing, and speaking the English language, numeracy, problem solving, English language acquisition, and other literacy skills;
- Placement in, retention in, or completion of postsecondary education, training, unsubsidized employment, or career advancement; and
- Receipt of a secondary school diploma or its recognized equivalent.

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

Beginning in fiscal year 2000, the Secretary must reserve 1.72 percent of the Adult Education appropriation to award incentive grants to States that exceed the agreed-upon performance levels for the Adult Education and Family Literacy Act, the Perkins Act, and employment training services authorized under Title I of the Workforce Investment Act (WIA). Funds are to be transferred to the Secretary of Labor to be awarded along with funds reserved from the other two programs. Incentive grants will range from \$750,000 to \$3 million for each eligible State. States may use these funds for carrying out innovative programs, consistent with the provisions of any one or more of the three programs (adult education, vocational and technical education, and employment training.) States can also use a portion of their State leadership funds for financial incentives, to reward local programs for high performance achievements or exemplary program coordination.

The 2000 appropriation act requires the Department to set aside \$25.5 million of the State Grants appropriation to provide grants to States for English literacy and civics education. The act directs the Department to award half of the funds to States with the largest absolute need for such services, and award the other half to States with the largest recent growth in need for such services. The Department is currently exploring various data sources to use for distributing these grant funds.

Funds for Adult Education State Grants are provided on a forward-funded basis. The 2001 appropriation will become available on July 1, 2001, and remain available for obligation until September 30, 2002.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996.....	\$247,440
1997.....	340,339
1998.....	345,339
1999.....	365,000
2000.....	450,000

FY 2001 BUDGET REQUEST

The Department requests \$460 million for Adult Education State Grants, an increase of \$10 million over the 2000 appropriation. This request addresses the needs of the millions of Americans, particularly recent immigrants and other adults who have limited English proficiency, who lack the literacy skills necessary to benefit from job training, obtain good jobs, and be effective parents, and also of other adults seeking to improve their literacy skills or attain high school equivalency.

The request also furthers the goals for adult education set forth by the President in his adult literacy initiative last year. The goals of the initiative were outlined in a White House press release in January 1999, are that, by 2005, the Nation will:

- **Increase the number of full-time teachers by 20 percent**, to ensure that programs are staffed by well-trained instructors;

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

- **Double the number of instructional hours per student**, to ensure that programs are of sufficient intensity and duration for participants to achieve learning gains;
- **Triple the number of computer stations available**; and
- **More than double the amount of child care and counseling services for students.**

For many disadvantaged adults, local programs that receive Federal Adult Education funds provide the only opportunity for them to complete their high school education and start on the path to postsecondary education, better jobs, and more effective parenting. Between 1990 and 1994, the Adult Education State Grant program enabled 1.5 million adults to receive their high school diplomas or GED credentials. Such successes are important because research shows a strong relationship between schooling and earnings. The Bureau of Labor Statistics reported that, in 1999, full-time workers age 25 and over with a bachelor's degree had median weekly earnings of \$842, while those with a high school diploma earned \$481. Those without a high school diploma averaged only \$342. A recent Conference Board study documented the economic benefits of workplace education programs. The study found that employees participating in these programs made gains in 11 workplace basic skills areas that helped them perform at a higher level of work.

A new analysis of the 1992 National Adult Literacy Survey assesses the literacy of the workforce and the impact of literacy levels on adults employment and earnings. An estimated 40 to 43 percent of the Nation's adults who were actively in the labor force performed in the two lowest levels on prose, document and quantitative proficiency scales. The tasks that adults at these levels were most likely to be able to perform successfully appear to fall far short of the types of assignments that one would expect workers in professional, technical, managerial, high-level sales, skilled clerical, and craft or precision production occupations to be given on a regular basis. The researchers conclude that many members of the existing labor force are ill-equipped with respect to key literacy proficiencies needed for workers in the "information age" economy. Literacy levels were also clearly tied to earnings. For example, the average weekly earnings of full-time workers in the third (middle) level of prose literacy were 50 percent higher than those of their counterparts in Level 1 (the lowest level) and employees in the highest level of prose literacy out-earned those in Level 3 by nearly 72 percent.

In addition to increasing program intensity and quality, the requested increase will support the development and implementation of a **national performance reporting system**. Using a common set of outcome measures and a uniform data collection system, the national system will measure and document learner outcomes resulting from adult education instruction. Simultaneously, States are continuing to improve their standards for program quality and to implement accountability systems that use those standards for program improvement. The requested funds will provide States with the resources they need to meet the reporting requirements of the new Act and the data required for compliance with GPRA. For example, local programs will have additional funds to invest in appropriate computer hardware and software that will provide access to State or local networks. Also, programs will have more funds available to train teachers and administrators in how to use management information systems.

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

In addition, with the passage of the new Act, adult education programs face a number of significant challenges in bringing about required educational reforms at the State and local levels. The requested funds will provide resources **to help States establish and use challenging State content standards to improve their programs**. The setting and use of challenging State content standards and systems to certify what adult learners know and are able to do upon exiting programs of adult education will promote effective programs.

Finally, the additional funds requested will help State and local educational agencies meet their commitments to participate in the **one-stop systems** authorized in Title I of the Workforce Investment Act. The goal of the "one-stops" is to make it easier for individuals to access the education, training, and other information they need to pursue lifelong learning and advance their careers. Adult education programs, together with postsecondary vocational and technical education programs, are important components of this new, customer-friendly service delivery system.

The Department would reserve up to 0.54 percent of the Adult Education appropriation for incentive grants. The Department requests language to override the 1.72 percent set-aside in the Adult Education and Family Literacy Act to make the set-aside consistent with the 0.54 percent reserved in the Perkins Act and the amount reserved by the Department of Labor under Title I of WIA. Incentive grants will be awarded to States exceeding their State-adjusted levels of performance for WIA Title I, Adult Education and Family Literacy, and Perkins. The number of States that will meet this requirement cannot be determined until the States submit their performance data at the end of the program year. After incentive grants are made at the level specified by WIA Section 503, any remainder from the set-aside of Adult Education funds will be reallocated to all States for State Grant activities.

Finally, the Department proposes to shift the funds for the English literacy and civics education initiative from the State Grants appropriation to the National Leadership Activities appropriation. The Department would use those funds for grants to allow States or localities that are significantly affected by immigration and large limited English proficient populations to implement programs that help immigrants learn English and adapt to their new lives in the U.S.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To support adult education systems that result in increased adult learner achievement in order to prepare adults for family, work, citizenship, and future learning.

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

Objective: Provide adult learners with opportunities to acquire basic foundation skills (including English language acquisition), complete secondary education, and transition to further education and training and to work.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
By 2000, 40% of adults in beginning-level Adult Basic Education programs will complete that level and achieve basic skill proficiency. <i>FY 1996 baseline: 630,000 beginning level students; 28% completion rate.</i>	36%	40%	40%	40%

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
By 2000, 40% of adults enrolled in secondary level programs will earn a diploma or GED. <i>FY 1996 baseline: 928,000 secondary level students; 38% attainment rate.</i>	38%	40%	40%	40%

States tabulate and submit to the Department annually the numbers of enrollees who attain various levels in adult education programs.

The Department is working, in collaboration with States and local agencies, to revise the national system of collecting and reporting information on adult education, as part of the implementation of the new data and accountability provisions of WIA. Starting with the July 1, 2000 reporting period, the Department will implement new data collection and reporting protocols, including standardized data collection methodologies and standards for automated data reporting. Also, the Department will create a data quality review process for States to use in reviewing their adult education data.

PROGRAM OUTPUT MEASURES (\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
State grants	\$365,000	\$416,416	\$457,000
Range of adult education			
State grants	\$646-41,466	\$763-53,560	\$815-59,076
Total participants (estimated)	3,967,000	4,535,000	4,963,000
Basic (grades 0-8 and ESL)	2,658,000	3,039,000	3,500,000
Secondary (grades 9-12)	1,309,000	1,496,000	1,463,000

VOCATIONAL AND ADULT EDUCATION

Adult education: State grants

PROGRAM OUTPUT MEASURES (cont.) **(\$000s)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Amount for English literacy and civics grants	0	\$25,500	0 ¹
Number of students served	0	85,000	0
Incentive grants	0	\$8,084	\$3,000 ²
Range of awards	0	\$700-3,000	\$700-3,000

¹ Funds for English literacy and civics education for 2001 are requested under Adult Education National Leadership Activities.

² Reflects proposed appropriations language to reduce the incentive grant set-aside from 1.72 percent to 0.54 percent.

VOCATIONAL AND ADULT EDUCATION

Adult Education: National Institute for Literacy (Adult Education and Family Literacy Act, Section 242)

FY 2001 Authorization (\$000s): Indefinite¹

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$6,000	\$6,500	+\$500

¹Under the Adult Education and Family Literacy Act, 1.5 percent (not to exceed \$8 million) of the total appropriation for Adult Education must be set aside for the National Institute for Literacy. The fiscal year 2001 request is less than the statutory set-aside and would require appropriations language to override this provision.

PROGRAM DESCRIPTION

The mission of the National Institute for Literacy (NIFL) is to further progress toward achieving the National Education Goal that all adults will be literate and able to compete in the workforce by the year 2001. The Institute helps ensure that all adults with literacy and basic skills needs have opportunities to receive high-quality services that lead to success in the family, at work, and in the community by focusing on awareness raising, promoting coordination and communication, and enhancing the capacity and effectiveness of State and local service delivery systems. In carrying out its activities, the Institute leverages resources from other sources; involves adult learners in program design and implementation; and models and encourages collaboration as an essential means of achieving success.

The appropriation for the Institute supports both program activities and administrative expenses, including personnel compensation and benefits for staff and operational costs. The funds also support the National Institute Board, which is responsible for planning and advising on programs for the Institute. In addition, an interagency group, comprised of representatives of the Departments of Education, Labor, and Health and Human Services, helps develop administrative and programmatic plans for the Institute. The Institute also receives an appropriation of \$5 million through the Reading Excellence Act of 1998 to carry out technical assistance and dissemination of materials and information about best practices.

Funds for the Institute are provided on a forward-funded basis. The 2001 appropriation will become available on July 1, 2001, and remain available for obligation until September 30, 2002.

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

Funding levels for the past 5 years were as follows:

	(\$000s)
1996.....	\$4,860
1997.....	4,491
1998.....	5,491
1999.....	6,000
2000.....	6,000

FY 2001 BUDGET REQUEST

The Department requests \$6.5 million for the National Institute for Literacy, an increase of \$500,000 over the 2000 appropriation. This request complements the request for additional funds for Adult Education State Grants and National Leadership Activities, to further the goals the President outlined this year for his adult and family literacy initiative.

The proposed funding increases for adult education and family literacy would dramatically increase the availability of education services for adults. Set in the context of program improvement and accountability, as required by the new Workforce Investment Act, this funding would increase both access and the quality of services provided to adults in need. With this anticipated growth, there will be an increased demand for information about the status of adult literacy and basic skills in America, the condition of the current delivery system, the services that work best with which groups of students, and recent innovations in instruction, professional development, and system design. Funds requested for 2001 would help the Institute provide valuable assistance to policymakers, program administrators, teachers, and students in meeting these information needs.

Specifically, the Institute would concentrate its fiscal year 2001 program funds in the following areas:

- Increasing awareness and understanding of the importance of literacy to the Nation;
- Engaging in policy-related activities at the national, State, and local levels;
- Building the capacity to provide all learners with high-quality services based on rigorous standards; and
- Encouraging collaboration to improve the literacy skills of all Americans.

Increasing national awareness and understanding of the importance of literacy

With FY 2001 funds, the Institute will expand its capacity to provide information and communications services to the public, policymakers, educators, and students. In addition to supporting the salaries and related expenses of the NIFL staff involved in the communications efforts, FY 2001 funds will be used to support:

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

- An active network of communications professionals in both the public and private sectors who work on literacy-related issues in order to create common messages and coordinate efforts.
- Development of a set of mission-related messages that can be integrated into all NIFL projects and communications efforts. NIFL will make use of the marketing, public relations, and communications efforts of other collaborating organizations to get these messages out to the field.
- Enhanced use of the NIFL Literacy and Communication System (LINCS) for public awareness efforts.
- Publication of a "State of Literacy in America" report.
- Development and consistent delivery of a set of NIFL print products (newsletters, magazine, updates, alerts, etc.).

Developing effective, innovative approaches to improving opportunities for Americans to improve their literacy skills

Equipped for the Future (EFF): NIFL is moving into its fourth and final phase of the Equipped for the Future initiative. The long-term goal of EFF is to develop content standards to drive system-wide reforms by redefining what is taught and learned in adult education and literacy programs, and how it is taught and learned; articulating with the K-12 education system and the employment and training and postsecondary systems to create a lifelong learning "continuum"; and operationalizing a system of assessment and accountability that captures the outcomes that learners have identified.

During the third phase of the project NIFL completed the following activities:

- Published the "EFF Users Guide".
- Completed development of a standards framework for the adult and family literacy field.
- Field-tested the EFF standards in over 25 programs in 13 States.
- Created examples of curriculum, support materials, and assessment tools that demonstrate how the standards work in practice.
- Built a broad base of awareness and support for the standards framework.

Over the next three years, NIFL will work with new and existing partners to achieve the three remaining EFF goals that comprise Phase Four. The goals are:

- *Goal 1 – Creating resources to support EFF adoption.* FY 2001 funds will support the third year of operation of a national center that helps national, State, and local organizations to adopt EFF as a framework for their literacy and lifelong learning services. The center's capacity-building activities will focus on adult and family literacy providers (both public and privately funded), public and private training organizations, skill standards voluntary partnerships, and organizations helping parents move from welfare to work.

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

- *Goal 2 – Building an assessment system aligned with EFF.* NIFL will use 2001 funds to continue developing a system to allow State and local programs that are utilizing EFF standards to report program results. In addition, NIFL would use funds to leverage other public and private investments in the development of assessment instruments in key skill areas.
- *Goal 3--Assessing the impact of EFF.* In order to meet the requirements of GPRA and to be able to assess the impact of EFF for NIFL's program development purposes, NIFL will fund an independent evaluation that will provide information on how EFF changes the structure and processes within literacy programs and services and will assess the impact of EFF on learning.

Engaging in public policy activities and increasing private-sector support

FY 2001 funds will support the costs of maintaining NIFL staff expertise on policy-related issues, and finance an extension of this in-house work through grants and contracts. The goals of these efforts are to:

- Continue the current set of policy-related activities (updates, briefings, speaking engagements, technical assistance, etc.) and look for ways to raise awareness of NIFL as a source of expertise on literacy policy matters at the national level. NIFL will expand these efforts to include information about implementation of the Reading Excellence Act and its implications for other broader literacy policy.
- Expand a new State policy effort by building on the State updates and establishing working relationships with key State-level policy bodies (National Governors' Association, National Conference of State Legislatures, Council of Chief State School Officers, etc.). NIFL staff will track and report on important policy developments and create opportunities to advocate for good State-level policy, and will use State communications tools and networks to disseminate information.
- Implement a strategy for NIFL to actively increase the role of the private sector in improving literacy and basic skills. The Vice President's Initiative on 21st Century Skills, Equipped for the Future's advisory groups, and the America Reads Partnership all provide starting points for this effort. For example, NIFL plans to join with several committed businesses or business associations to create a working group that would provide leadership by coordinating private-sector efforts, publicizing best practices, and supporting sound public policy.

Developing and maintaining an information and communication infrastructure

In its efforts to help upgrade the quality of adult education and literacy services across the country, NIFL has taken a system-building approach, concentrating on enhancing national capacity for information and communications through the Literacy Information and Communication System (LINCS).

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

LINCS includes:

- A national home page that provides information on all available Institute materials and programs and links to all other major national and State literacy resources;
- Search functions that allow users to search for information by topic across all LINCS home pages simultaneously;
- A comprehensive calendar of State, national, and international events related to literacy; and
- Electronic discussion groups, which currently involve 6,000 individuals and organizations in moderated forums, on critical instructional and policy issues.

The LINCS infrastructure includes four regional "Hubs" operated by the State educational agencies in California, Massachusetts, Ohio, and Tennessee. The Hubs' personnel provide technical assistance to other States in their region, contribute locally and regionally developed content to the LINCS data bases, help develop new LINCS features, and train local programs in how to use the Internet for educational purposes. To date, the Hubs have trained over 6,000 people and provided seed funding to 200 programs and coalitions to allow them to gain access to LINCS. Over 48 States and hundreds of local programs now have home pages for literacy on the Internet as a result of the Hubs' efforts.

NIFL is currently redesigning LINCS and expanding its features to make the system a national model for how the Internet can support educational improvement and opportunities.

FY 2001 funds will be used to expand both the content and functionality of LINCS in order to encourage additional, easier Internet use in teaching and learning. Expenses include ongoing maintenance and connectivity to the Web, integration of new technologies and capabilities, training and technical assistance in use of technology, publicizing LINCS, and the addition of high-quality materials that meet user needs.

National Center for Adult Literacy and Learning Disabilities

For the past six years NIFL funds supported the National Center for Adult Literacy and Learning Disabilities. The Center worked to increase the public's awareness and understanding about the role of learning disabilities (LD) in adult learning through a variety of publications, meetings, and collaborations with other groups. The Center supported a set of information resources that includes a toll-free number, a variety of publications, an electronic discussion group, a Web site, and a collection of books, articles, and instructional/training materials. Independent evaluations of the information functions of the Center have been consistently positive.

The major work of the Center involved the creation of a research-based guide to LD and how instruction of adults with LD can be most effective. This guide, *Bridges to Practice*, was published in December 1998. This guide includes a built-in training model that was designed to support a train-the-trainer approach. Beginning in January 1999, the Center trained staff from 27 States and several national organizations in the use of *Bridges*.

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

In addition to providing support for the Center and its work, NIFL funded three Learning Disabilities Training and Dissemination "Hubs" in 1997 to help ensure that *Bridges* and the other work of the Center would be integrated into States' training infrastructure. NIFL awarded grants for the three hubs: the State departments of Arkansas and Massachusetts; and a collaboration of Laubach Literacy Action and Literacy Volunteers of America. Funds from the Department of Education's Adult Education National Leadership appropriation supported a fourth hub beginning in 1998. This hub, the Seattle Private Industry Council, is modifying *Bridges* for use in the context of employment and training.

NIFL's support for the Center ended on September 30, 1999. NIFL now plans to utilize in-house staff to facilitate training and technical assistance activities for *Bridges* for the next two years. In addition, NIFL will expand its focus in the area of learning disabilities and literacy by developing a more comprehensive set of services around effective reading instruction for adults. NIFL will integrate this work with its responsibilities under the Reading Excellence Act in an effort to form a seamless set of resources to support effective reading instruction for children, youth, and adults.

The fiscal year 2001 request for the National Institute for Literacy is less than the statutory cap of 1.5 percent of the total appropriation for Adult Education. The Department is proposing appropriations language to override this provision in order to provide funding at the requested level.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To provide the adult education and literacy field with the knowledge, resources, and infrastructure necessary to improve the quality of literacy instruction and the achievement of learners.

Objective: Provide literacy instructors, students, and administrators with an Internet-based, state-of-the-art information and communication system that improves the quality and increases the availability of literacy services.

VOCATIONAL AND ADULT EDUCATION

Adult education: National Institute for Literacy

Indicator	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Expanding the use of technology. The number of instructors trained to use LINCS will increase by 20% over the baseline each year. <i>1998 baseline: 4,900.</i>	5,880	7,056	8,467	10,161

This indicator is intended to measure the extent to which literacy instructors are participating in LINCS training nationwide. Through the LINCS project, NIFL is working to build a high-quality data base of materials and communications opportunities that support the improvement and growth of literacy services in the Nation. NIFL analyzed enrollment data from the 1997-98 program year to determine the number of instructors who were trained to use LINCS during that period. Using this enrollment data as a baseline, NIFL will collect enrollment data for subsequent program years to determine if targets are being reached.

PROGRAM OUTPUT MEASURES (\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Literacy policy research	0	\$200	\$200
NIFL forums, working groups	\$150	\$125	\$150
Literacy leader fellows	\$150	\$125	\$175
Public awareness campaign	\$100	\$100	0
Communications/print products	\$200	\$200	\$275
LINCS system and hub grants	\$1,400	\$1,205	\$1,500
Hotline and clearinghouse	\$150	\$150	\$150
Equipped for the Future grants and related activities	\$1,200	\$1,100	\$1,100
Adult learning initiative	\$605	\$750	\$750
Other	<u>\$11</u>	<u>\$50</u>	<u>\$50</u>
Total program costs	\$3,976	\$4,005	\$4,350
Personnel, compensation, and benefits	\$1,300	\$1,400	\$1,600
Peer review of new grant awards	\$10	\$10	\$10
Other non-personnel costs	<u>\$724</u>	<u>\$585</u>	<u>\$540</u>
Total administrative costs	\$2,034	\$1,995	\$2,150
Number of full-time permanent personnel	13	14	14

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

(Adult Education and Family Literacy Act, section 243)

FY 2001 Authorization (\$000s): ¹

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$14,000	\$89,000	+\$75,000

¹Under the Adult Education and Family Literacy Act, 1.5 percent (not to exceed \$8 million) of the total appropriation for Adult Education must be set aside for National Leadership Activities. The fiscal year 2001 request would require appropriations language to override this cap.

PROGRAM DESCRIPTION

The 1998 Adult Education and Family Literacy Act provides for a program of national leadership and evaluation activities that address the major policy priorities in adult education, including local program improvement, professional development, and performance measurement.

Under the previous national programs authority, the Department engaged in a number of applied research, development, dissemination, evaluation, and program improvement activities to assist States in their efforts to improve the quality of adult education programs. Examples of activities included: evaluations on the status and effectiveness of adult education programs, national and international adult literacy surveys, and technical assistance on using technology to improve instruction and administration. The Department is continuing to pursue these types of activities under the new Act.

Funds for National Leadership Activities are provided on a forward-funded basis. The 2001 appropriation will become available on July 1, 2001, and remain available for obligation until September 30, 2002.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996.....	\$2,560
1997.....	4,998
1998.....	4,998
1999.....	14,000
2000.....	14,000

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

FY 2001 BUDGET REQUEST

For fiscal year 2001, the Department requests \$89 million for National Leadership Activities, an increase of \$75 million over the 2000 appropriation. This increase would be used to support the English literacy and civics grants program described below. The remaining \$14 million would support national activities designed to strengthen program performance, improve professional development, and support the development and use of technology. The request will provide the resources needed to help the Department meet goals that it has established for adult learner achievement and program quality.

English Literacy/Civics Initiative: Common Ground Partnerships

The Department requests \$75 million in National Leadership funds to support the third year of the English literacy and civics initiative. Funds in 2000 (\$25.5 million) were provided as a set-aside of the Adult Education State Grants appropriation. Funds for "Common Ground Partnerships" would continue to allow States or localities that are significantly affected by immigration and large limited English proficient populations to implement programs that address three critical areas in helping immigrants adapt to their new lives in the U.S.:

- Acquisition of English literacy skills;
- Knowledge about the rights and responsibilities of citizenship; and
- Key skills that are necessary to navigate the U.S. Government system, public education system, the workplace, and other key institutions of American life.

English literacy instruction is the fastest growing component of adult education. Enrollment in these programs has increased 105 percent over the past 10 years, to 1.85 million in 1997. Of the \$365 million appropriated for Adult Education State Grants in FY 1998, States invested 45 percent (\$166 million) in English as a Second Language (ESL) programs. Common Ground Partnerships funds will help States and localities meet the overwhelming demand for additional services.

Comparisons of the educational attainment and employment of recent immigrants versus that of natives show extreme differences. Immigrants are less likely to have graduated from high school. One-third of the recent immigrants do not have a high school diploma or its equivalent, compared with 17 percent of the native population. In 1993, the unemployment rate for recent immigrants was double the rate of natives, and their median income was \$8,393, compared with \$15,876 for natives. The Common Ground initiative provides services in several key areas to help these immigrants to acquire the skills that they need to find productive employment.

The Department requests \$14 million for other national activities. These activities would be designed to strengthen program performance, improve professional development, and support the development and use of technology. The request would provide the resources needed to help the Department meet goals that it has established for adult learner achievement and program quality, and quality implementation of the 1998 Adult Education and Family Literacy Act.

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

Improving Program Quality and Accountability

The Department requests \$3.7 million for activities to help State and local educational agencies meet the challenges of establishing accountability systems and improving program quality to meet the requirements under the Workforce Investment Act (WIA).

National technical assistance

The Department would use \$2.5 million to continue a national technical assistance project to enhance State leadership and local program implementation of the National Adult Education and Family Literacy Act (WIA Title II) requirements concerning improving the quality of services delivered. This project will give both State and local level program administrators training designed to improve the quality of adult education and literacy instruction. The project will include several types of assistance, including, a university-based Executive Leadership Training Institute for State-level staff; four training institutes for local program managers; an Internet-based certification program for local managers; national and regional interactive video training to support the implementation of the National Reporting System; and an on-site technical assistance project supporting WIA implementation.

Projects to strengthen performance measurement systems

The Department would use \$500,000 in 2001 to continue development of the new National Reporting System (NRS). Starting with the July 1, 2000, reporting period, the Department will implement the NRS data collection and reporting protocols, including standardized data collection methodologies and standards for automated data reporting. Through the use of the NRS, the Department will facilitate the creation of a common language that States and localities will use to describe the adult education delivery system for reporting on accountability to the Department, Congress, and States. States will use the NRS to document and report on adult learner outcomes, including learning gains, and describe student characteristics, the types and scope of services, and other individual, program, and system-wide outcomes.

Professional development activities

Professional development of adult education instructors and administrators supports the Department's goal of improving adult education instruction, and gives State and local adult education officials assistance in learning to implement the National Reporting System. In 2000 through 2003, the Department will develop, field-test, and provide technical assistance in the use of instructor competencies, including their use for teacher certification. Beginning in 2001, we will develop a model adult education instructor certification system, based on existing teacher certification systems and research on teacher competencies, for voluntary testing and use by States. In 2001, \$700,000 would be used to support these efforts.

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

Technology Challenge for Adult Learning

Using technology applications to improve instruction

The Department would use \$2 million to continue grants to educational institutions to create and promote technology applications that improve instruction in adult education. The goals of this work are: extend access to adult learners in their homes, workplaces, and communities; make quality instruction available through technology (for example, through distance learning); and increase staff development opportunities through technology. Products of these grants will include educational materials on videos, CD-ROM, Internet, and Web TV that allow adult learners to study at home or work, as well as in the classroom.

Other technology initiatives

The Department would use \$500,000 for new and continuing activities to support the building of systems and materials to provide access to adult education instruction through technology. Activities would include work to develop a "virtual" adult education system. Based upon a study of existing "virtual" high schools that is underway, model quality standards for "virtual" or Internet adult education would be developed. The Department would use study findings to address administrative, programmatic, and access issues that currently are barriers to adult learners who want to use the Internet to acquire basic literacy skills or a high school diploma. Funds for technology would also support the development and assessment of a "Crossroads Café" video series on Family Literacy that will be suitable for TV broadcast, use in literacy programs, and use at home to develop literacy skills in parents and their children.

High Skills Communities Campaign

With \$1.5 million in National Leadership funds, the Department would continue support for the High Skills Communities Campaign to help States and local communities create strategies to promote lifelong learning and literacy and accelerate progress in meeting State and national goals related to adult education and lifelong learning. The initiative would be modeled after Georgia's successful "Certified Literate Community Program" and the Malcolm Baldrige National Quality Awards.

The Department will develop a "community lifelong learning assessment toolkit" that will provide tools to help States and communities assess their needs in adult education and lifelong learning, outline program goals, create an action plan, and take specific steps to build communities in which lifelong learning is the norm. The toolkit will include the Department's estimates of State and local literacy levels and Census data on education levels that can be used to help grantees establish baseline data and set community goals. The Department will encourage communities to use Federal, State, local, and private resources to set and meet specific literacy goals. The Department, together with the White House, will hold an annual ceremony to recognize States and localities that are exceptionally successful in meeting their established goals.

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

Research and Development

National Adult Literacy Survey analysis

In conjunction with the 2002 National Adult Literacy Survey (NALS), the Department would use \$1.5 million to continue research on the competencies of adult learners who are participating in adult basic education, English literacy, and adult secondary education programs. (In 2000, \$1.5 million is planned for this activity.) The Department will compare findings from this study with data from both the International Adult Literacy Survey (IALS) and the 1992 National Adult Literacy Survey. The Department will use the data to explore development of adult basic education assessment instruments that are linked to IALS and NALS data over the long term, as well as development of literacy assessment instruments for English literacy adult learners.

Basic skills certificate

To provide opportunities for students to acquire fundamental education skills and transition to further education and work, the Department would use \$800,000 in 2001 to continue work on the development of model basic skill certificates, including model standards for certification. The certificates will communicate to employers what adult learners know and are able to do upon completion of adult education programs at less than the high school credential levels. The models would bring together, and make more comparable, the many approaches to certification that States are considering. The certification standards would be based on assessment systems already available and used by States and by local programs.

National Clearinghouse for ESL Literacy Education (NCLE)

The NCLE addresses critical needs in the adult English literacy field, including professional development, research syntheses, and model programs. The Center provides practitioners with information and technical assistance, and disseminates information through publications, a Web site, a listserv, and a newsletter. In 2001, funding (\$400,000) would allow NCLE to continue these activities and to engage in other research and development activities that support the programs funded by the English Literacy/Civics grants.

Assessment of Federal adult education programs

The Department request \$2 million to continue a set of studies to assess the success of adult education and literacy activities. Studies will examine: (1) the effect of performance measures and other measures of accountability on service delivery; (2) the extent to which adult education and family literacy activities improve the literacy skills of adults and lead them to pursue further education, training, and employment opportunities; (3) the impact of support services on enrollment in, and completion of, adult education programs; and (4) the impact of the statutory "direct and equitable funding" provisions on the distribution of Federal funds. The assessment will also address questions about the quality of adult education, effective strategies for teaching specific subgroups of adult learners, and the impact of other WIA provisions on programs and learners. Studies completed during the next 4 years should allow the Department to submit a final report to Congress in 2003, before the next reauthorization.

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

Studies of effective practices

For FY 2001, the Department would use \$700,000 to complete work on two major adult education studies. One study is assessing ESL programs serving adult learners who have low levels of literacy in their native language. The other looks at adult basic education programs that serve adult learners with the lowest levels of literacy.

The Department would use the remaining \$825,000 for other national leadership activities, including several activities that would be conducted in cooperation with other Federal agencies. These projects include studies on the needs of adults with disabilities, and model approaches to serving vocational rehabilitation clients. Other research would describe and assess adult high schools and the basic skills education needs of high school dropouts and youth attending those schools.

The 2001 request for National Leadership Activities exceeds the statutory cap of 1.5 percent (not to exceed \$8 million) of the total appropriation for Adult Education. The Department is again requesting appropriations language to override this cap.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

Performance goal: To support adult education systems that result in increased adult learner achievement in order to prepare adults for family, work, citizenship, and future learning.

Objective: Provide adult learners with opportunities to acquire basic foundation skills (including English language acquisition), complete secondary education, and transition to further education and training and to work.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
By 2002, 40% of adults in beginning English for Speakers of Other Languages (ESOL) will complete and achieve basic literacy. <i>FY 1996 baseline 435,000 students had a 27% completion rate.</i>	27	32	36	40

States tabulate and submit to the Department annually the numbers of enrollees who complete various levels in adult education programs. Starting with the July 1, 2000 reporting period, the Department will implement new data collection and reporting protocols, including standardized

VOCATIONAL AND ADULT EDUCATION

Adult education: National leadership activities

data collection methodologies and standards for automated data reporting. In addition, the Department will create a data quality review process for States to use to review adult education data.

PROGRAM OUTPUT MEASURES (\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
English literacy and civics instruction	\$7,000	0 ¹	\$75,000
Improving program quality and accountability:			
Technical assistance for program quality	500	\$2,500	2,500
Projects to strengthen performance measurement system	500	500	500
Professional development activities	600	700	700
Using technology applications to improve instruction:			
Technology Application grants	2,000	2,000	2,000
Other technology activities	700	500	500
High Skills Communities campaign	200	1,500	1,500
Research and development:			
NALS analysis	0	1,500	1,500
Basic skills certificate project	0	800	800
National Clearinghouse for ESL Literacy	400	400	400
Assessment of Federal adult education programs	200	2,000	2,000
Studies to identify and evaluate effective practices in adult education	985	500	700
Other projects	845	1,030	825
Peer review of new award applications	70	70	75

¹ In FY 2000, \$25.5 million was provided under the Adult Education State Grants appropriation.

VOCATIONAL AND ADULT EDUCATION

State grants for incarcerated youth offenders (Higher Education Act, Title VIII, Part D)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$14,000 ¹	\$12,000	-\$2,000

¹ Excludes \$5,000 thousand for grants under the Literacy Programs for Prisoners program, which was appropriated under State Grants for Incarcerated Youth Offenders and is presented in a separate activity request.

PROGRAM DESCRIPTION

Under this program, the Department makes grants to State correctional agencies to assist and encourage incarcerated youths to acquire functional literacy skills and life and job skills. These youths are provided an opportunity to pursue a postsecondary education certificate or an associate or bachelor's degree. During and following their release from prison, they also receive employment counseling and other related services in order to ensure their successful reintegration into society.

In order to receive services under this program, a student must be 25 years of age or younger and be eligible to be released or paroled from prison within 5 years. Services may be provided to students for up to 5 years. On an annual basis, grantees may receive up to \$1,500 per eligible student for tuition, books, and materials, and up to \$300 per student for related services such as career development, substance abuse counseling, parenting skills training, and health education.

The Department distributes funds for this program to States under a formula based on the number of eligible students in each State. In order to receive a grant, State correctional agencies must demonstrate how they will integrate the proposed programs with existing State correctional programs—such as adult education, vocational training, and graduate education degree programs—and State industry programs. In addition, the statute requires States to integrate activities funded under this authority with their school-to-work programs.

State correctional agencies receiving grants under this program must provide annual evaluation reports to the Secretary of Education and the Attorney General. These reports must include measures of program completion, student academic and vocational skill attainment, success in job placement and retention, and recidivism.

VOCATIONAL AND ADULT EDUCATION

State grants for incarcerated youth offenders

Funding levels for the past 5 years were as follows:

	(\$000s)
1996	0
1997	0
1998	\$12,000
1999	12,000
2000	14,000

FY 2001 BUDGET REQUEST

The Department requests \$12 million for support of the Youth Offenders program, \$2 million less than the 2000 appropriation. The limited Federal discretionary budget precludes increases or even level funding for some programs in order to provide increases for the highest education priorities. At the requested level, States would have enough funds to serve approximately 6,700 youth offenders. Through the program, States expect to improve academic and vocational achievement; increase participation in job placement programs; lower recidivism rates; and increase job retention among youth offenders.

In authorizing the Youth Offenders program, the Congress found that the average incarcerated youth offender has attended school only through grade 10 and that most incarcerated youth can be diverted from a life of crime into productive citizenship with available educational, vocational, work skills, and related service programs. Further, Congress found that almost all of these youths will return to a life of crime upon release if they are not involved with educational programs while incarcerated. The Youth Offenders program offers an educational opportunity during incarceration and after release that can break the cycle of crime for these individuals.

This program provides services that are not provided through other corrections education programs. Although the new Adult Education and Family Literacy Act includes a set-aside for corrections education, funds under the set-aside can be used only for basic education, special education programs, English literacy programs, and secondary school credit programs. Funds from the set-aside may not be used for postsecondary education and postsecondary vocational training. Only the Youth Offender program provides such services for this target population.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals; indicators; targets; and, where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program.

Other performance indicators and strategies for this program are included in the Department's Annual Program Performance Plan and Annual Program Performance Report.

VOCATIONAL AND ADULT EDUCATION

State grants for incarcerated youth offenders

Performance goal: To increase access to and achievement in correctional education programs that will aid in the reintegration of prisoners into their communities.

Objective: Grantees will develop and implement improved educational programs that include postsecondary education and vocational training.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Improved academic and vocational achievement: By fall 2000, 75% of students participating in vocational and academic programs will complete their annual program curriculum. <i>Baseline to be established in 2000.</i>	n/a	75%	85%	85%

This indicator is intended to measure the educational achievement of incarcerated youth. The Department will measure educational achievement by collecting data on the numbers of students obtaining vocational skill certificates. Currently the Department does not have achievement data for this target population because the program is in its third year of operation and the Department has not had sufficient time to collect the data. Through technical assistance activities, the Department will work with grantees to improve their data collection. For example, the Department will establish a network to allow grantees to communicate with one another in order to exchange information and communicate effective strategies on "best practices." Grantees will provide data for the academic and vocational achievement indicator in their annual evaluation reports. The Department will use the data from these reports to compile baseline information on participants and completion rates.

PROGRAM OUTPUT MEASURES

(\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
State grants	\$12,000	\$14,000	\$12,000
Number of grants	40	56	56
Range of grants	\$17-1,713	\$0.542-1,486	\$0.542-1,486

VOCATIONAL AND ADULT EDUCATION

Literacy programs for prisoners

(National Literacy Act of 1991, Section 601)

FY 2001 Authorization (\$ in 000s): 0¹

Budget Authority (\$ 000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$5,000	0	-\$5,000

¹ Program is authorized in 2000 through appropriation language. Funds were provided under the appropriation for State Grants for Incarcerated Youth Offenders. Funds are to be used in accordance with section 601 of the National Literacy Act as it was in effect prior to enactment in 1998 of the Adult Education and Family Literacy Act.

PROGRAM DESCRIPTION

Through this program, The Department makes competitive grants to State and local correctional agencies and correctional education agencies to establish and operate programs that reduce recidivism through the improvement of "life skills." Life skills include self-development and communication skills, job and financial skills, interpersonal and family relationships, and stress and anger management. The Secretary awards life skills training grants for a period of up to 3 years, and gives priority to programs that have the greatest potential for innovation, effectiveness, and replication.

In addition, grants are made to the same types of entities to establish programs that use advanced technologies, to the extent possible, to assist persons incarcerated in prisons, jails or detention centers in achieving functional literacy. The grantees are required to serve each incarcerated person who is not functionally literate unless that person is terminally ill, serving a life sentence without parole, or under a sentence of death.

Funds for this program have been provided on a forward-funded basis. The 2000 appropriation will become available on July 1, 2000, and remain available for obligation until September 30, 2001.

Funding levels for the past 5 fiscal years were as follows:

	(\$ in 000s)
1996.....	\$4,723
1997.....	4,723
1998.....	4,723
1999.....	4,723
2000.....	5,000

VOCATIONAL AND ADULT EDUCATION

Literacy programs for prisoners

FY 2001 BUDGET REQUEST

The Department requests no funding for this activity, which is not authorized. The Adult Education State Grants program provides a 10 percent set-aside for education of prisoners and other institutionalized individuals. Correctional education agencies may apply directly to their States for grants to meet the literacy needs of incarcerated individuals. Separate direct funding for literacy programs for prisoners is no longer needed.

PROGRAM OUTPUT MEASURES (\$000s)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Number of awards	13	13	0
Average grant	\$342	\$366	0
Monitoring/technical assistance	\$234	\$236	0
Peer review of new award applications	\$47	0	0

VOCATIONAL AND ADULT EDUCATION

Vocational Education State Grants

State or Outlying area	1999 Appro. For 2000	2000 Estimate for 2001	2001 Request for 2002 ¹
Alabama.....	19,175,065	19,323,483	15,680,824
Alaska.....	4,214,921	4,214,921	3,420,369
Arizona.....	18,342,011	19,220,145	15,596,966
Arkansas.....	11,403,795	11,578,720	9,396,022
California.....	109,110,628	112,551,486	91,334,468
Colorado.....	13,399,568	13,684,438	11,104,792
Connecticut.....	8,354,739	8,488,516	6,888,351
Delaware.....	4,214,921	4,258,800	3,455,976
Florida.....	46,929,002	49,721,384	40,348,433
Georgia.....	29,560,386	29,884,291	24,250,820
Hawaii.....	5,065,645	5,160,017	4,187,305
Idaho.....	6,066,002	6,288,520	5,103,075
Illinois.....	38,934,174	39,427,678	31,995,188
Indiana.....	23,687,919	23,873,481	19,373,104
Iowa.....	11,963,946	11,972,060	9,715,214
Kansas.....	10,325,866	10,764,073	8,734,944
Kentucky.....	17,905,647	17,905,647	14,530,263
Louisiana.....	21,041,943	21,276,925	17,266,023
Maine.....	5,065,645	5,160,017	4,187,305
Maryland.....	14,812,307	15,088,067	12,243,823
Massachusetts.....	17,323,922	17,323,922	14,058,199
Michigan.....	35,641,404	36,687,576	29,771,621
Minnesota.....	16,684,637	17,065,774	13,848,715
Mississippi.....	13,363,550	13,472,174	10,932,542
Missouri.....	20,939,820	21,605,944	17,533,019
Montana.....	4,958,769	5,026,946	4,079,320
Nebraska.....	6,816,893	6,931,415	5,624,778
Nevada.....	5,242,942	5,624,451	4,564,189
New Hampshire.....	5,065,645	5,160,017	4,187,305
New Jersey.....	21,030,188	21,486,881	17,436,401
New Mexico.....	8,078,981	8,227,910	6,676,871
New York.....	51,361,536	51,361,536	41,679,401
North Carolina.....	28,780,974	28,958,931	23,499,899
North Dakota.....	4,214,921	4,214,921	3,420,369
Ohio.....	42,750,001	43,184,072	35,043,467
Oklahoma.....	15,138,709	15,655,475	12,704,270
Oregon.....	12,410,066	12,716,901	10,319,645
Pennsylvania.....	40,722,778	40,906,332	33,195,101
Rhode Island.....	5,065,645	5,160,017	4,187,305
South Carolina.....	16,634,702	17,066,195	13,849,056
South Dakota.....	4,214,921	4,214,921	3,420,369
Tennessee.....	21,457,158	21,686,874	17,598,693
Texas.....	80,683,593	81,766,165	66,352,470
Utah.....	11,760,024	12,079,327	9,802,260
Vermont.....	4,214,921	4,214,921	3,420,369
Virginia.....	23,247,014	23,549,215	19,109,966
Washington.....	19,624,946	20,084,337	16,298,249
West Virginia.....	8,428,617	8,428,617	6,839,743
Wisconsin.....	20,241,685	20,843,145	16,914,015
Wyoming.....	4,214,921	4,214,921	3,420,369
District of Columbia.....	4,214,921	4,214,921	3,420,369
Puerto Rico.....	18,458,484	18,458,484	14,978,885
American Samoa.....	190,000	190,000	190,000
Northern Marianas.....	190,000	190,000	190,000
Guam.....	500,000	500,000	500,000
Virgin Islands.....	567,534	567,534	460,548
Indian Set-aside.....	12,883,125	13,195,625	10,695,625
Native Hawaiian Set-aside.....	2,576,625	2,639,125	2,139,125
Other Non-State Allocations (PREL).....	<u>1,181,300</u>	<u>1,231,300</u>	<u>831,300</u>
TOTAL.....	1,030,650,000	1,055,650,000	855,650,000

Note – FY 2001 estimates are subject to change because updated income and population data are not available until fall 2000.

VOCATIONAL AND ADULT EDUCATION

Tech-Prep Education Grants

State or Outlying area	1999 Appro. For 2000	2000 Appro. for 2001	2001 Request for 2002 ¹
Alabama.....	2,022,901	1,997,043	5,849,868
Alaska.....	375,526	373,408	787,123
Arizona.....	1,955,507	1,986,364	5,818,584
Arkansas.....	1,208,554	1,196,638	3,505,268
California.....	11,632,674	11,631,971	34,073,115
Colorado.....	1,421,257	1,414,259	4,142,739
Connecticut.....	883,843	877,271	2,569,759
Delaware.....	344,583	437,433	683,474
Florida.....	5,003,269	5,138,606	15,052,333
Georgia.....	3,119,742	3,088,482	9,046,979
Hawaii.....	530,000	530,000	1,296,939
Idaho.....	646,718	649,906	1,903,746
Illinois.....	4,052,454	4,074,772	11,936,083
Indiana.....	2,494,677	2,467,277	7,227,305
Iowa.....	1,245,235	1,245,235	3,624,345
Kansas.....	1,100,878	1,112,445	3,258,647
Kentucky.....	1,881,173	1,863,661	5,400,948
Louisiana.....	2,220,325	2,198,928	6,441,240
Maine.....	530,000	530,000	1,530,812
Maryland.....	1,569,082	1,559,322	4,567,665
Massachusetts.....	1,666,792	1,663,433	4,872,634
Michigan.....	3,799,858	3,791,588	11,106,562
Minnesota.....	1,766,833	1,763,714	5,166,383
Mississippi.....	1,414,178	1,392,322	4,078,480
Missouri.....	2,223,646	2,232,931	6,540,845
Montana.....	518,818	516,332	1,278,017
Nebraska.....	720,313	716,348	2,098,372
Nevada.....	558,969	581,276	1,702,710
New Hampshire.....	530,000	530,000	1,109,514
New Jersey.....	2,240,200	2,220,626	6,504,801
New Mexico.....	861,329	850,338	2,490,865
New York.....	5,246,770	5,246,770	15,007,422
North Carolina.....	3,015,054	2,995,591	8,766,841
North Dakota.....	372,827	370,742	927,935
Ohio.....	4,496,548	4,462,988	13,073,270
Oklahoma.....	1,613,992	1,617,962	4,739,438
Oregon.....	1,313,275	1,314,266	3,849,833
Pennsylvania.....	4,260,344	4,238,522	12,383,721
Rhode Island.....	508,194	530,000	991,837
South Carolina.....	1,761,538	1,763,757	5,166,511
South Dakota.....	415,806	422,955	1,061,166
Tennessee.....	2,251,864	2,241,295	6,565,345
Texas.....	8,538,858	8,450,370	24,753,365
Utah.....	1,253,778	1,248,374	3,656,818
Vermont.....	356,048	355,094	701,411
Virginia.....	2,454,487	2,433,764	7,129,139
Washington.....	2,092,286	2,075,676	6,080,203
West Virginia.....	877,270	877,270	2,495,541
Wisconsin.....	2,133,808	2,154,097	6,309,920
Wyoming.....	288,919	285,884	694,698
District of Columbia.....	202,167	303,250	375,504
Puerto Rico.....	1,948,048	1,921,202	5,449,225
American Samoa.....	0	0	
Northern Marianas.....	0	0	
Guam.....	0	0	
Virgin Islands.....	<u>58,785</u>	<u>58,242</u>	<u>154,702</u>
TOTAL	106,000,000	106,000,000	306,000,000

VOCATIONAL AND ADULT EDUCATION

Adult Education State Grants

State or Outlying area	1999 Appro. For 2000	2000 Appro. for 2001	2001 Request for 2002 ¹
Alabama.....	7,493,131	\$8,554,513	\$9,197,675
Alaska.....	645,994	\$704,065	\$739,252
Arizona.....	4,732,070	\$5,388,874	\$5,786,874
Arkansas.....	4,504,331	\$5,127,764	\$5,505,543
California.....	41,465,645	\$47,505,017	\$51,164,690
Colorado.....	3,158,528	\$3,584,761	\$3,843,042
Connecticut.....	4,148,696	\$4,720,018	\$5,066,219
Delaware.....	1,081,141	\$1,202,975	\$1,276,799
Florida.....	19,914,446	\$22,795,924	\$24,542,008
Georgia.....	10,539,094	\$12,046,801	\$12,960,422
Hawaii.....	1,432,188	\$1,605,461	\$1,710,456
Idaho.....	1,320,547	\$1,477,460	\$1,572,542
Illinois.....	15,240,308	\$17,436,884	\$18,767,939
Indiana.....	7,610,404	\$8,688,970	\$9,342,546
Iowa.....	3,191,221	\$3,622,245	\$3,883,429
Kansas.....	2,767,903	\$3,136,897	\$3,360,494
Kentucky.....	7,283,425	\$8,314,079	\$8,938,620
Louisiana.....	7,253,261	\$8,279,495	\$8,901,359
Maine.....	1,680,978	\$1,890,705	\$2,017,791
Maryland.....	6,088,641	\$6,944,223	\$7,462,677
Massachusetts.....	7,078,120	\$8,078,691	\$8,685,004
Michigan.....	11,973,584	\$13,691,487	\$14,732,481
Minnesota.....	4,346,519	\$4,946,829	\$5,310,595
Mississippi.....	4,974,554	\$5,666,889	\$6,086,421
Missouri.....	7,559,848	\$8,631,006	\$9,280,092
Montana.....	1,067,641	\$1,187,497	\$1,260,123
Nebraska.....	1,767,353	\$1,989,737	\$2,124,492
Nevada.....	1,764,219	\$1,986,144	\$2,120,621
New Hampshire.....	1,365,765	\$1,529,304	\$1,628,401
New Jersey.....	10,498,943	\$12,000,766	\$12,910,823
New Mexico.....	2,262,061	\$2,556,935	\$2,735,617
New York.....	25,790,122	\$29,532,561	\$31,800,362
North Carolina.....	11,211,914	\$12,818,209	\$13,791,572
North Dakota.....	1,000,568	\$1,110,596	\$1,177,266
Ohio.....	14,574,961	\$16,674,044	\$17,946,021
Oklahoma.....	4,583,310	\$5,218,316	\$5,603,107
Oregon.....	3,296,805	\$3,743,300	\$4,013,860
Pennsylvania.....	16,966,470	\$19,415,981	\$20,900,306
Rhode Island.....	1,825,142	\$2,055,994	\$2,195,881
South Carolina.....	6,159,621	\$7,025,604	\$7,550,360
South Dakota.....	1,074,426	\$1,195,276	\$1,268,504
Tennessee.....	9,104,734	\$10,402,265	\$11,188,526
Texas.....	25,776,189	\$29,516,587	\$31,783,151
Utah.....	1,503,125	\$1,676,233	\$1,786,709
Vermont.....	840,529	\$927,106	\$979,565
Virginia.....	8,754,392	\$10,000,586	\$10,755,739
Washington.....	4,764,515	\$5,426,074	\$5,826,955
West Virginia.....	3,597,698	\$4,088,283	\$4,385,559
Wisconsin.....	5,830,653	\$6,648,433	\$7,143,979
Wyoming.....	652,183	\$711,161	\$746,897
District of Columbia.....	1,224,300	\$1,367,111	\$1,453,647
Puerto Rico.....	8,918,376	\$10,188,600	\$10,958,313
American Samoa.....	185,267	197,780	205,361
Northern Marianas.....	316,295	348,008	367,223
Guam.....	267,758	292,359	307,264
Virgin Islands.....	270,163	243,147	218,832
Palau.....	99,975	99,990	99,998
Micronesia.....	99,975	99,990	99,998
Marshall Islands.....	99,975	99,990	99,998
Incentive Grants Set-Aside for WIA.....	0	8,084,000	2,999,700
English Literacy and Civics Education Grants.....	0	25,500,000	0
TOTAL.....	365,000,000	450,000,000	460,000,000

VOCATIONAL AND ADULT EDUCATION

State Grants for Incarcerated Youth Offenders

State or Outlying area	1999 Appro. For 2000	2000 Appro. for 2001	2001 Request for 2002 ¹
Alabama.....	305,808	346,193	296,737
Alaska.....	0	10,182	8,728
Arizona.....	206,420	233,680	200,297
Arkansas.....	157,273	178,042	152,607
California.....	1,473,145	1,667,688	1,429,447
Colorado.....	192,415	217,825	186,707
Connecticut.....	238,479	269,972	231,405
Delaware.....	0	7,855	6,733
Florida.....	772,036	873,991	749,135
Georgia.....	359,388	406,849	348,728
Hawaii.....	20,815	23,564	20,198
Idaho.....	51,782	58,620	50,246
Illinois.....	606,797	686,931	588,798
Indiana.....	265,654	300,737	257,774
Iowa.....	97,460	110,331	94,569
Kansas.....	0	77,748	66,641
Kentucky.....	132,345	149,823	128,420
Louisiana.....	557,264	630,856	540,734
Maine.....	38,997	44,147	37,840
Maryland.....	213,230	241,389	206,905
Massachusetts.....	89,365	101,167	86,714
Michigan.....	555,786	629,183	539,300
Minnesota.....	72,918	82,548	70,755
Mississippi.....	100,287	113,531	97,312
Missouri.....	305,165	345,465	296,113
Montana.....	26,019	29,455	25,248
Nebraska.....	61,097	69,166	59,285
Nevada.....	74,075	83,857	71,878
New Hampshire.....	27,690	31,346	26,868
New Jersey.....	471,753	534,053	457,760
New Mexico.....	34,757	39,347	33,726
New York.....	871,616	986,722	845,761
North Carolina.....	490,706	555,508	476,150
North Dakota.....	17,989	20,364	17,455
Ohio.....	625,107	707,658	606,564
Oklahoma.....	243,361	275,499	236,142
Oregon.....	0	89,748	76,927
Pennsylvania.....	257,752	291,791	250,106
Rhode Island.....	31,287	35,419	30,359
South Carolina.....	315,380	357,029	306,025
South Dakota.....	0	24,510	21,008
Tennessee.....	0	125,822	107,848
Texas.....	678,174	767,733	658,057
Utah.....	22,486	25,455	21,819
Vermont.....	0	36,801	31,544
Virginia.....	103,756	117,458	100,678
Washington.....	145,837	165,096	141,511
West Virginia.....	53,324	60,366	51,742
Wisconsin.....	323,796	366,557	314,192
Wyoming.....	0	32,583	27,928
District of Columbia.....	16,961	19,201	16,458
Puerto Rico.....	294,244	333,101	285,515
American Samoa.....	0	2,982	2,556
Northern Marianas.....	0	582	499
Guam.....	0	2,546	2,182
Virgin Islands.....	0	3,927	3,366
TOTAL	12,000,000	14,000,000	12,000,000

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STUDENT FINANCIAL ASSISTANCE

Divider Title: _____

Department of Education
STUDENT FINANCIAL ASSISTANCE
Fiscal Year 2001 Budget Request

CONTENTS

	<u>Page</u>
Appropriations language.....	O-1
Analysis of language provisions and changes.....	O-4
Amounts available for obligation.....	O-8
Obligations by object classification.....	O-9
Summary of changes.....	O-10
Authorizing legislation.....	O-12
Appropriations history.....	O-14
Significant items in FY 2000 appropriations reports.....	O-16
Summary of request.....	O-17
Activities:	
Federal Pell grants.....	O-26
Federal supplemental opportunity grants.....	O-35
Federal work-study	O-41
Federal Perkins loans:	
Federal capital contributions.....	O-49
Loan cancellations	O-49
Leveraging educational assistance partnership.....	O-56
State table.....	O-61

STUDENT FINANCIAL ASSISTANCE

For carrying out subparts 1, 3 and 4 of part A, part C and part E of title IV of the Higher Education Act of 1965, as amended, [\$9,435,000,000] \$10,258,000,000, which shall remain available through September 30, [2001] 2002.¹

The maximum Pell Grant for which a student shall be eligible during award year [2000-2001] 2001-2002 shall be [\$3,300] \$3,500.² *Provided*, That notwithstanding section 401(g) of the Act, if the Secretary determines, prior to publication of the payment schedule for such award year, that the amount included within this appropriation for Pell Grant awards in such award year, and any funds available from the fiscal year [1999] 2000 appropriation for Pell Grant awards, are insufficient to satisfy fully all such awards for which students are eligible, as calculated under section 401(b) of the Act, the amount paid for each such award shall be reduced by either a fixed or variable percentage, or by a fixed dollar amount, as determined in accordance with a schedule of reductions established by the Secretary for this purpose.³

[For an additional amount for "STUDENT FINANCIAL ASSISTANCE" for payment of allocations to institutions of higher education for Federal Supplemental Educational Opportunity Grants for award years 1999-2000 and 2000-2001, made under title IV, part A, subpart 3, of the Higher Education Act of 1965, as amended, \$10,000,000:⁴ *Provided*, That notwithstanding any other provision of law, the Secretary of Education may waive or modify any statutory or regulatory provision applicable to the Federal Supplemental Educational Opportunity Grant program and the determination of need for such grants, that the Secretary deems necessary to assist individuals who suffered financial harm resulting from the hurricanes, and the flooding associated with the hurricanes, that struck the eastern United States in August and September 1999, and who, at the time of the disaster were residing, attending an institution of higher education, or employed within an area affected by such a disaster on the date which the

President declared the existence of a major disaster (or, in the case of an individual who is a dependent student, whose parent or stepparent suffered financial harm from such disaster, and who resided, or was employed in such an area at that time):⁵ *Provided further*, That notwithstanding section 437 of the General Education Provisions Act (20 U.S.C. 1232) and section 553 of title 5, United States Code, the Secretary shall, by notice in the Federal Register, exercise this authority, through publication of waivers or modifications of statutory and regulatory provisions, as the Secretary deems necessary to assist such individuals:⁶ *Provided further*, That notwithstanding section 413D of the Higher Education Act of 1965, allocations from such additional amount shall not be taken into account in determining institutional allocations under such section in future years:⁷ *Provided further*, That the entire amount made available under this paragraph is designated by the Congress as an emergency requirement pursuant to section 251(b)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985, and that the entire amount shall be available only to the extent an official budget request for the entire amount, that includes designation of the entire amount as an emergency requirement pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, is transmitted by the President to the Congress.]⁸

GENERAL PROVISIONS

[SEC. 307. (a) Notwithstanding sections 401(j) and 435(a)(2) of the Higher Education Act of 1965 (20 U.S.C. 1070a(j) and 1085(a)(2)) and subject to the requirements of subsection (b), the Secretary of Education shall--

- (1) recalculate the official fiscal year 1996 cohort default rate for Jacksonville College of Jacksonville, Texas, on the basis of data corrections confirmed by the Texas

Guaranteed Student Loan Corporation; and

(2) restore the eligibility of Jacksonville College to participate in the Federal Pell Grant Program for the 1999-2000 award year and succeeding award years.

(b) Jacksonville College shall implement a default management plan that is satisfactory to the Secretary of Education.

(c) For purposes of determining its Federal Pell Grant Program eligibility, Jacksonville College shall be deemed to have withdrawn from the Federal Family Education Loan program as of October 6, 1998.]⁹ (*Department of Education Appropriations Act, 2000, as enacted by section 1000(a)(4) of the Consolidated Appropriations Act, 2000 (P.L. 106-113).*)

Note—Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document which follows the appropriation language.

STUDENT FINANCIAL ASSISTANCE

Analysis of Language Provisions and Changes

Language Provision	Explanation
STUDENT FINANCIAL ASSISTANCE ¹ ... which shall remain available through September 30, [2001] <u>2002</u>.	This language extends the availability of funds provided under the account through the end of fiscal year 2002.
² The maximum Pell Grant for which a student shall be eligible during award year [2000-2001] <u>2001-2002</u> shall be [\$3,300] <u>\$3,500</u>:	This language sets the maximum Pell Grant award for award year 2001-2002 at \$3,500. The amount authorized under the Higher Education Act is \$5,100.
³ <i>Provided</i>, That notwithstanding section 401(g) of the Act, if the Secretary determines, prior to publication of the payment schedule for such award year, that the amount included within this appropriation for Pell Grant awards in such award year, and any funds available from the fiscal year [1999] <u>2000</u> appropriation for Pell Grant awards, are insufficient to satisfy fully all such awards for which students are eligible, as calculated under section 401(b) of the Act, the amount paid for each such award shall be reduced by either a fixed or variable percentage, or by a fixed dollar amount, as determined in accordance with a schedule of reductions established by the Secretary for this purpose.	This language allows the Secretary to reduce Pell Grant awards if the Secretary determines that funding is insufficient to fully fund all awards for which students are eligible. In addition, the language also allows funds available from the fiscal year 2000 appropriation to be accounted for in determining whether available Pell Grant funds are sufficient. Without this authority, the Secretary would be required to notify Congress of the insufficiency and to request additional funds to fully fund all awards for which students are eligible.

STUDENT FINANCIAL ASSISTANCE

Analysis of Language Provisions and Changes – Continued

Language Provision	Explanation
⁴ [For an additional amount for “STUDENT FINANCIAL ASSISTANCE” for payment of allocations to institutions of higher education for Federal Supplemental Educational Opportunity Grants for award years 1999-2000 and 2000-2001, made under title IV, part A, subpart 3, of the Higher Education Act of 1965, as amended, \$10,000,000:]	This language provides \$10 million in emergency funding for the SEOG Program for use in the 1999-2000 and 2000-2001 award years. The language is deleted because it relates to a one-time natural disaster.
⁵ [<i>Provided</i>, That notwithstanding any other provision of law, the Secretary of Education may waive or modify any statutory or regulatory provision applicable to the Federal Supplemental Educational Opportunity Grant program and the determination of need for such grants, that the Secretary deems necessary to assist individuals who suffered financial harm resulting from the hurricanes, and the flooding associated with the hurricanes, that struck the eastern United States in August and September 1999, and who, at the time of the disaster were residing, attending an institution of higher education, or employed within an area affected by such a disaster on the date which the President declared the existence of a major disaster (or, in the case of an individual who is a dependent student, whose parent or stepparent suffered financial harm from such disaster, and who resided, or was employed in such an area at that time):]	This proviso stipulates that the emergency funds are for the relief of students who were victims of Hurricanes Dennis and Floyd and the subsequent flooding in August and September 1999. It further grants the Secretary the right to waive or modify any statutory or regulatory need determination provisions in order to assist hurricane victims. The language is deleted.

STUDENT FINANCIAL ASSISTANCE

Analysis of Language Provisions and Changes – Continued

Language Provision	Explanation
⁶ [<i>Provided further</i>, That notwithstanding section 437 of the General Education Provisions Act (20 U.S.C. 1232) and section 553 of title 5, United States Code, the Secretary shall, by notice in the Federal Register, exercise his authority, through publication of waivers or modifications of statutory and regulatory provisions, as the Secretary deems necessary to assist such individuals:]	This proviso requires that the Secretary publish a notice in the Federal Register of all waivers of statutory or regulatory provisions related to the execution of the emergency SEOG funding. This language is deleted.
⁷ [<i>Provided further</i>, That notwithstanding section 413D of the Higher Education Act of 1965, allocations from such additional amount shall not be taken into account in determining institutional allocations under such section in future years:]	This proviso states that emergency SEOG funds will not be taken into account with an institution's standard SEOG allocation when determining future institutional allocations. The language is deleted.
⁸ [<i>Provided further</i>, That the entire amount made available under this paragraph is designated by the Congress as an emergency requirement pursuant to section 251(b)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985, and that the entire amount shall be available only to the extent an official budget request for the entire amount, that includes designation of the entire amount as an emergency requirement pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, is transmitted by the President to the Congress.]	This proviso stipulates that the \$10 million in emergency SEOG funding is only available to the extent that the President submits an official budget request to the Congress that designates the amount requested as an emergency requirement. This language is deleted.

STUDENT FINANCIAL ASSISTANCE

Analysis of Language Provisions and Changes – Continued

Language Provision	Explanation
GENERAL PROVISIONS ⁹ [SEC. 307. (a) Notwithstanding sections 401(j) and 435(a)(2) of the Higher Education Act of 1965 (20 U.S.C. 1070a(j) and 1085(a)(2)) and subject to the requirements of subsection (b), the Secretary of Education shall-- (1) recalculate the official fiscal year 1996 cohort default rate for Jacksonville College of Jacksonville, Texas, on the basis of data corrections confirmed by the Texas Guaranteed Student Loan Corporation; and (2) restore the eligibility of Jacksonville College to participate in the Federal Pell Grant Program for the 1999-2000 award year and succeeding award years. (b) Jacksonville College shall implement a default management plan that is satisfactory to the Secretary of Education. (c) For purposes of determining its Federal Pell Grant Program eligibility, Jacksonville College shall be deemed to have withdrawn from the Federal Family Education Loan program as of October 6, 1998.]	This section instructs the Secretary to recalculate the FY 1996 cohort default rate for Jacksonville College of Jacksonville, Texas to restore the institution's eligibility to participate in the Pell Grant Program. The language is deleted.

STUDENT FINANCIAL ASSISTANCE

Amounts Available for Obligation (\$000s)

	1999	2000	2001
<u>Current authority:</u>			
Annual appropriation	\$9,348,000	\$9,445,000	\$10,258,000
Enacted Rescission	<u> </u>	<u>-70,283</u>	<u> </u>
Subtotal, appropriation	9,348,000	9,374,717	10,258,000
Recovery of prior-year obligations	10,062	0	0
Unobligated balance, start of year	2,890,886	4,553,513	2,903,092
Unobligated balance expiring	-83	0	0
Unobligated balance, end of year	<u>-4,553,513</u>	<u>-2,903,092</u>	<u>-3,175,280</u>
Total, direct obligations	7,695,352	11,025,138	9,985,812

STUDENT FINANCIAL ASSISTANCE

Obligations by Object Classification (\$000s)

	1999	2000	2001
Grants, subsidies, and contributions	\$7,695,352	\$11,025,138	\$9,985,812

STUDENT FINANCIAL ASSISTANCE

Summary of Changes (\$000s)

2000	\$9,374,717
(Obligations)	(11,025,138)
2001	10,258,000
(Obligations)	<u>(9,985,812)</u>
Net change	+883,283
(Obligations)	(-1,039,326)

	<u>2000 base</u>	<u>Change from base</u>
<u>Increases:</u>		
<u>Program:</u>		
Increase to fund estimated Pell Grant program costs for the 2001-2002 award year at a maximum award of \$3,500.		+\$615,000
Increase to replace expended cumulative surplus funds.		+319,283
Increase to fund expansion of Work-Study program.	\$934,000	+77,000
Increase to fund expansion of SEOG program.	631,000	+60,000
Increase to fund increased Perkins Loan Cancellations.	30,000	<u>+30,000</u>
Subtotal, increases		+1,101,283
<u>Decreases:</u>		
<u>Built-in:</u>		
Decrease from cumulative surplus.		-132,000

STUDENT FINANCIAL ASSISTANCE

Summary of Changes—Continued

	<u>2000 base</u>	<u>Change from base</u>
<u>Decreases:</u>		
<u>Built-in:</u>		
Net decrease from projected decline in Pell Grant eligible applicants.	\$7,959,000	<u>-\$86,000</u>
Subtotal, decreases		-218,000
Net change		+883,283

STUDENT FINANCIAL ASSISTANCE

Authorizing Legislation
(\$000s)

O-12

Activity	2000 Authorized	2000 Estimate	2001 Authorized	2001 Request
Federal Pell grants (HEA-IV-A-1) Institutional payments (HEA-IV-G-489) ²	Indefinite Indefinite	\$7,639,717	Indefinite Indefinite	\$8,356,000 ¹
Federal supplemental educational opportunity grants (HEA-IV-A-3) Institutional payments (HEA-IV-G-489) ³	Indefinite Indefinite	631,000	Indefinite Indefinite	691,000
Federal work-study (HEA-IV-C) Institutional payments (HEA-IV-G-489) ³ Institutional payments for Job Location and Development centers (HEA-IV-C-446) ⁴ Work colleges (HEA-IV-C-448) ⁵	Indefinite Indefinite Indefinite Indefinite	934,000	Indefinite Indefinite Indefinite Indefinite	1,011,000
Federal Perkins loans (HEA-IV-E) a) Federal capital contributions b) Loan cancellations Institutional payments (HEA-IV-G-489) ³	Indefinite Indefinite Indefinite	100,000 30,000	Indefinite Indefinite Indefinite	100,000 60,000
Leveraging educational assistance partnerships (HEA-IV-A-4) ⁶	Indefinite	40,000	Indefinite	40,000

STUDENT FINANCIAL ASSISTANCE

Authorizing Legislation -- Continued
(\$000s)

Activity	2000 Authorized	2000 Estimate	2001 Authorized	2001 Request
<u>Unfunded authorizations:</u>				
Academic achievement incentive scholarships (HEA-IV-A, Chapter 3)	Indefinite	<u>0</u>	Indefinite	<u>0</u>
Total definite authorization	0		0	
Total appropriation		\$9,374,717		\$10,258,000

Note: HEA refers to the Higher Education Act of 1965, as amended.

¹ This level of budget authority, plus utilization of surplus budget authority from previous years of \$132,000 thousand, supports a maximum Pell Grant of \$3,500.

² Payments to institutions based on a \$5 per Pell Grant recipient calculation reimburse institutions for a share of the cost of administering the Pell Grant program. Funds for these payments are reserved from the Pell Grant appropriation.

³ Institutions are authorized to use up to 5 percent of the first \$2,750 thousand of expenditures for the Supplemental Educational Opportunity Grant, Work-Study, and Perkins Loan programs for administrative expenses; plus 4 percent of expenses in excess of this amount but less than \$5,500 thousand; plus 3 percent of expenses above \$5,500 thousand.

⁴ Institutions are authorized to use not more than 10 percent or \$50 thousand of their Work-Study allocations for the costs of establishing or expanding programs to locate or develop jobs, including community service jobs, for currently enrolled students.

⁵ Senate report language on the 2000 appropriations includes \$3,000 thousand for work colleges, to carry out the provisions of HEA section 448.

⁶ When the LEAP appropriation in any fiscal year exceeds \$30,000 thousand, the excess is reserved for activities authorized under Special LEAP.

STUDENT FINANCIAL ASSISTANCE

Appropriations History (\$000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1992	6,713,681 ¹	6,853,000 ¹	6,962,356 ¹	6,884,880 ¹
1992 Rescission	---	---	---	-310
1992 Supplemental	40,000	---	---	40,000
1993	7,689,637 ¹	8,101,170 ¹	7,427,928 ¹	7,546,109 ^{1,2}
1993 Supplemental	2,023,730	---	---	---
1993 Supplemental	---	---	---	341,000
1993 Supplemental	---	---	---	30,000
1994	7,514,436 ¹	8,120,356 ¹	8,004,293 ¹	8,020,160 ¹
1994 Supplemental	---	---	---	80,000
1995	7,863,935 ¹	7,825,417 ¹	7,685,524 ¹	7,702,970 ¹
1995 Rescission	---	---	---	-35,000 ³
1995 Rescission	---	---	---	-85,000
1996	8,035,793 ⁴	6,643,246	6,255,290	6,258,147
1997	7,359,407	6,630,407	6,642,830 ⁵	7,560,407
1998	9,263,407 ⁶	9,046,407 ⁷	8,495,641 ⁸	8,978,934
1999	9,203,000 ⁹	9,672,654	10,172,551 ⁹	9,348,000 ¹⁰
2000	9,183,000	6,973,000	8,321,600	9,445,000 ¹¹
2000 Advance for 2001	---	2,286,000	1,176,400	---
2000 Rescission	---	---	---	-70,283 ¹²
2001	10,258,000 ¹³			

¹ Excludes permanent authority of \$3.165 million in FYs 1992-95 appropriated by transfer from Department of Defense for participants in Operation Desert Shield/Storm, pursuant to P.L. 102-27.

² Includes transfer of \$90.115 million from funds appropriated to the Educational Excellence account in 1992.

³ Reflects rescission of \$35 million from fiscal year 1994 unobligated balances in the Pell Grant program that was scored against the FY 1995 appropriation under P.L. 104-6.

STUDENT FINANCIAL ASSISTANCE

Appropriations History--Continued

⁴ Includes \$2.129 billion for Skill grants, which was requested by the Department of Labor under proposed legislation.

⁵ Reflects Senate Committee action.

⁶ Assumes use of \$96.25 million in prior year funding for Pell grant awards.

⁷ Does not assume use of any prior year surplus for the Pell Grant program.

⁸ Senate-passed bill requires that \$96 million in prior year unobligated balances from the Pell Grant program be used as follows: \$35 million for SSIG; \$60 million for Educational Infrastructure under the School improvement programs account; and \$1 million for the National Institute of Literacy under the Vocational and Adult Education account. This use of prior-year balances for purposes other than Pell Grants is counted as a reduction in new budget authority in the year of enactment.

⁹ Excludes \$40 million in collections transferred from the Federal Perkins Loan Revolving Fund account, for new Federal Capital Contributions.

¹⁰ The Higher Education Amendments of 1998 repealed the Federal Perkins Loan Revolving Fund account and required the remittance to Treasury of \$53 million previously deposited into the account. The 1999 appropriation for Perkins Loans included an additional \$40 million to replace the funding remitted to Treasury.

¹¹ Includes \$10 million in emergency funds for SEOG for victims of Hurricanes Dennis and Floyd pursuant to Department of Education Appropriations Act, 2000, as enacted by section 1000(a)(4) of the Consolidated Appropriations Act, 2000 (P.L. 106-113).

¹² Rescission of \$70.283 million pursuant to Miscellaneous Appropriations, 2000, as enacted by section 1000(a)(5) of the Consolidated Appropriations Act, 2000 (P.L. 106-113).

¹³ Includes \$8.356 billion for the Pell Grant Program, which together with the use of a \$132 million cumulative surplus would fully fund a \$3,500 maximum award. .

STUDENT FINANCIAL ASSISTANCE

Significant Items in FY 2000 Appropriations Reports

GPRA Measures

- House: The House Report (H.R. 106-370, p.193) directs the Office of Student Financial Assistance to establish a regular consultative process with the Congress on the definition of performance measures, baseline development, and the implementation of regular progress reports to Congress. OSFA is further instructed to regularly brief Congress on how GPRA measures are being used to manage the Student Financial Assistance programs, establish performance goals, and measure program performance.
- Response: The Department will consult regularly with the Congress regarding GPRA measures.

Funding for Work Colleges

- Senate: The Senate Report (S.R. 106-166, p.288) states that the Committee supports continuing funding for work colleges authorized by section 448 of the Higher Education Act and has included \$3 million for this purpose
- Response: The Department will allocate \$3 million of the appropriation for Work-Study to participating Work Colleges.

DEPARTMENT OF EDUCATION FISCAL YEAR 2001 BUDGET REQUEST

(in thousands of dollars)

Office, Account, Program and Activity	Category Code	1999 Appropriation	2000 Appropriation	2001 President's Request	President's Request Compared to FY 2000 Appropriation	
					Amount	Percent
OFFICE OF STUDENT FINANCIAL ASSISTANCE PROGRAMS (OSFAP)						
Student Financial Assistance						
1. Federal Pell grants (HEA IV-A-1).....	D	7,704,000	7,639,717	8,356,000	716,283	9.4%
Funding surplus used (non-add).....	D	0	319,283	132,000	(187,283)	-58.7%
Funding surplus not used (non-add).....	D	(359,000)	0	0	0	---
Subtotal, program costs (non-add)		7,345,000	7,959,000	8,488,000	529,000	6.6%
Maximum award (in whole dollars)		3,125	3,300	3,500	200	6.1%
Subtotal, new appropriation.....		7,704,000	7,639,717	8,356,000	716,283	9.4%
2. Campus-based programs:						
(a) Federal supplemental educational opportunity grants (HEA IV-A-3).....	D	619,000	631,000 ¹	691,000	60,000	9.5%
(b) Federal work-study (HEA IV-C).....	D	870,000	934,000	1,011,000	77,000	8.2%
(c) Federal Perkins loans (HEA IV-E):						
(1) Capital contributions.....	D	100,000	100,000	100,000	0	0.0%
(2) Loan cancellations.....	D	30,000	30,000	60,000	30,000	100.0%
Subtotal, Perkins loans.....		130,000	130,000	160,000	30,000	23.1%
Subtotal, campus-based programs		1,619,000	1,695,000	1,862,000	167,000	9.9%
3. Leveraging educational assistance partnership (HEA IV-A-4).....	D	25,000	40,000 ²	40,000 ²	0	0.0%
Total		9,348,000	9,374,717	10,258,000	883,283	9.4%
Outlays.....		9,124,741	9,363,292	9,828,940	465,648	5.0%

¹ Includes \$10,000 thousand in emergency funds for disaster relief.² Includes \$10,000 thousand in fiscal years 2000 and 2001 for Special LEAP, pursuant to HEA Section 415A(b)(2) which states that when the appropriation for LEAP exceeds \$30,000 thousand, the excess shall be reserved to carry out Special LEAP, authorized under Section 415E.

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

*"At the edge of a new century and an increasingly competitive global economy, we know that our children's futures will be determined in large part by the quality of the education they receive. More and more, what you earn depends on what you learn."*¹ —The President.

Since 1993, the Administration has worked to prepare America for the 21st Century. By championing education as the Nation's number one priority, the Administration has garnered unparalleled support for the Nation's postsecondary students. With the implementation of the HOPE Scholarship and Lifetime Learning tax credits, increases in the core student aid programs including Pell Grants, and improved student loan programs, the doors of college have been opened to every American with the desire and preparation to attend.

The new century brings with it new promises and new challenges in education. The Department report A Back to School Special Report on the Baby Boom Echo: No End in Sight, released August 19, 1999, details the expected enrollment increases in the next 10 years. Between 1999 and 2009, full-time college enrollment is projected to rise by 14 percent.

The FY 2001 budget proposal for the Student Financial Assistance (SFA) Account emphasizes education's pivotal role in the global information economy. The budget proposal is part of a comprehensive effort to keep America competitive in the 21st century—to ensure that all students, by age 18, are academically prepared for, and are able to afford, college, and that every adult can learn for a lifetime.

In support of this commitment, the Department administers seven Federal student financial assistance programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA), including the two major loan programs: Federal family education loans (FFEL) and Federal direct student loans. These programs work together to provide direct financial assistance—grants, loans and work-study jobs—for the education and training Americans need to succeed.

The SFA account includes:

- Pell grants;
- Supplemental educational opportunity grants (SEOG);
- Work-Study;
- Perkins loans; and
- Leveraging educational assistance partnerships.

¹ Radio Address of the President to the Nation (August 7, 1999).

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Funding Highlights

The Administration's FY 2001 budget for the SFA account is \$10.258 billion, an increase of \$883 million, or 9.4 percent, over the FY 2000 appropriation.

Among the Administration's proposals are the following that would:

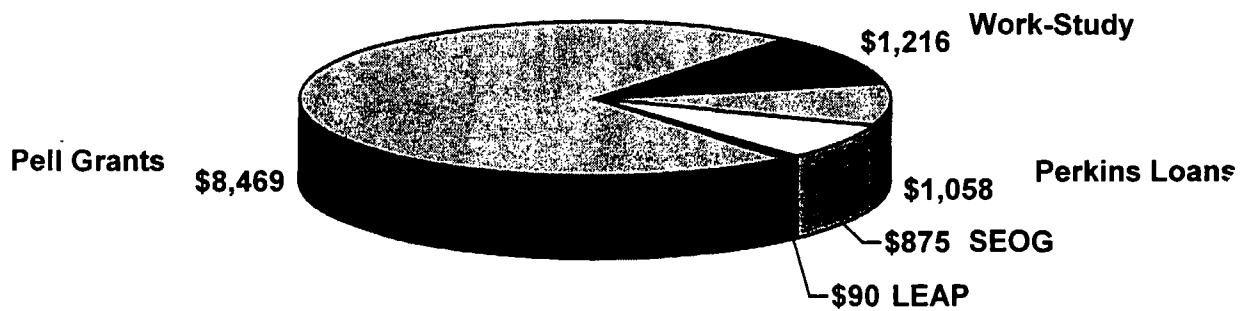
- Expand Pell grants for needy students. The Administration is proposing to raise the maximum Pell Grant award for the 2001-2002 award year to \$3,500—the highest ever and an increase of \$200 from the 2000-2001 level of \$3,300. Approximately 3.9 million students would receive grants under the program in the 2001-2002 award year.
- Provide more than \$3 billion in campus-based assistance—the highest amount ever. The three campus-based programs (SEOG, Work-Study, and Perkins loans) provide institutions with flexibility in developing aid packages that best meet the financing needs of their students.
 - Provide Work-Study job opportunities to 1 million students. To continue to meet this goal, the Administration proposes an increase of \$77 million. Work-Study helps students who work their way through college. Many Work-Study students serve their local communities, such as those working as reading and mathematics tutors in the President's America Reads and America Counts initiatives.
 - Provide \$691 million for SEOG. The Administration is proposing to increase SEOG funding by \$60 million over the FY 2000 appropriation, to provide approximately \$875 million in aid to an estimated 1.2 million undergraduate students in FY 2001.
 - Provide \$60 million for Perkins Loans Cancellations—to address the growing student cancellation entitlements resulting from the Higher Education Amendments of 1992 and 1998.

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Aid Available in the SFA Account: Under the FY 2001 SFA budget, total aid available to students (based on new budget authority, cumulative Pell Grant surplus funds, and any required matching funds, less allowable administrative costs) would be \$11.708 billion, an increase of \$698 million over the FY 2000 level. Together with the FFEL and Direct Loan programs, the SFA programs would provide student aid awards to over 8.6 million students, an estimated increase of 217,000 over the FY 2000 level.

Student Aid Available under the 2001 Request
SFA Programs (Discretionary)
(\$ in millions)



STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Government Performance and Results Act

The critical importance of postsecondary education is reflected in one of the Department's four major strategic goals:

Ensuring access to postsecondary education and lifelong learning.

The Department is working to achieve this goal through a number of strategies, including the continued improvement and expansion of the Department's SFA programs and, with the implementation of the Office of Student Financial Assistance (OSFA) as the Federal Government's first Performance Based Organization, the modernization and improvement of the student financial assistance delivery system.

How well the Department's strategy is working will be measured by key program performance objectives and indicators developed to implement a comprehensive performance measurement system in support of the Government Performance and Results Act (GPRA) of 1993. The SFA programs are designed to work together to achieve the strategic goal of ensuring access to postsecondary education. By providing an appropriate combination of funds for grants, loans and work-study assistance, the SFA programs remove financial barriers to participation in postsecondary education, thereby enabling students from all income levels to fulfill their postsecondary education goals.

The Office of Student Financial Assistance (OSFA) has developed a five-year performance plan, which together with the System Modernization Blueprint, outlines OSFA's three main organizational objectives: improve customer service, reduce unit cost, and increase employee satisfaction. In the process of developing these objectives several indicators that were previously included in this summary have been revised or replaced. For more information on OSFA's management of the SFA programs, see the section entitled: Federal Administration of Postsecondary Education Programs.

Key performance objectives and indicators that apply to all of the SFA programs are discussed in this account summary. Objectives and indicators that are specific to particular programs are discussed in the activity requests for those programs. A complete set of performance measures is included in the Department's Annual Performance Plan and Annual Program Performance Report.

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

PERFORMANCE OBJECTIVES AND INDICATORS:

Objective: Secondary school students get the information, skills, and support they need to prepare successfully for postsecondary education.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
College enrollment rates. Increase enrollment rates in postsecondary education each year among all students, while narrowing the enrollment gap between low and high family-income groups, as well as between minority and non-minority student groups. The enrollment gap is measured annually from the Current Population Survey (CPS) conducted by the Department of Commerce. <i>FY 1997 baseline: In 1997, 67% of all high school graduates aged 16-24 enrolled immediately in college. The gap between three-year average enrollment rates of low- and high-income students was 35%. For minority and non-minority high school graduates, the gap between Black and White three-year average enrollment rates was 11% and between Hispanic and White, 10%.</i>				

The overall college enrollment rate increased 4 percent from 1994 to 1998, but declined 1 percent in the last year (66% in 1998). The gap in three-year average enrollment rates between high- and low- income students decreased in the last two years (28% in 1998). The gap between minority and non-minority students has fluctuated over the period with the gap between Black and White students appearing to decline and between Hispanic and White students appearing to increase. In addition to targeting student aid increases to the neediest students, the Department is expanding its current information dissemination strategies designed to encourage students from low-income families to enroll in postsecondary education.

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Objective: Postsecondary students receive the financial aid and support services they need to enroll in and complete a high quality educational program.

Subobjective: Low- and middle-income students will have the same access to postsecondary education as high-income students.

<u>Indicator</u>					<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Percent of unmet need. Decrease continually the percent of unmet need, especially for low-income students. <i>FY 1995 baseline: In 1995-96 the percent of unmet need was 22% for all students.</i>								
	<u>TOTAL</u>	<u>Dependents</u>	<u>Independents With kids</u>	<u>Independents Without kids</u>				
95-96:	22%	46%	54%	49%				
96-97:	22%	46%	54%	49%				

The percent of unmet need, taking into consideration all sources of financial aid, is measured regularly by National Postsecondary Student Aid Survey (NPSAS) data. The next NPSAS update will be in 2001. Estimates are required for years falling between the quadrennial NPSAS collection. There was no change in the percent of unmet need between 1995-96 and 1996-97. Planned improvements include comparing projections with actual data from the 1999/2000 NPSAS and investigating the use of other more timely sources of data.

Subobjective: More students will persist in postsecondary education and attain degrees and certificates.

<u>Indicator</u>					<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Completion rates. Increase completion rates among all full-time eligible degree-seeking students enrolled in 4-year and 2-year colleges, while narrowing the gap in completion rates between low- and high-income student groups and between minority and non-minority student groups. <i>FY 1997 baseline:</i>								
	<u>TOTAL</u>	<u>Blacks</u>	<u>Whites</u>	<u>Hispanics</u>				
4-year college:	53%	36%	56%	39%				
2-year college:	31%	23%	33%	26%				

Completion rates will be available annually from the Graduation Rate Survey (GRS) conducted as part of the Integrated Postsecondary Education Data System (IPEDS).

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Subobjective: Taxpayers will have a positive return on the investment in the Federal student financial assistance programs.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Return on investment in student financial assistance. Ensure that the benefit of the student financial assistance programs, in terms of increased Federal tax revenues, will continue to exceed the costs of the programs. Data from the CPS, Beginning Postsecondary Student (BPS) study and the NPSAS will be analyzed annually. <i>FY 1996 baseline:</i> A Department study of Census data projects that for every \$1 spent on student aid approximately \$3 will be returned to the Treasury in terms of the net present value of increased tax revenues and decreased welfare costs.	\$3.36	>\$1	>\$1	>\$1

The best estimate is that the student aid programs return over \$3 to Federal tax payers in terms of the net present value of increased tax revenues for every \$1 spent on the student aid programs. Even using very conservative assumptions, the low estimate (FY 1999: \$1.54) is still almost 50 percent higher than the \$1 break-even point. The Department is continuing to monitor and analyze trends regarding the cost and benefits of the SFA programs in terms of revenue and individuals' earnings over their lifetimes. Moreover, policies that support increased persistence, degree attainment, and job placement will have a direct positive impact on the investment aspect of the SFA programs.

STUDENT FINANCIAL ASSISTANCE

Summary of Request—Continued

Objective: Postsecondary student aid delivery and program management is efficient, financially sound, and customer-responsive.

Subobjective: Increase customer satisfaction.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Process FAFSA within an average turn around time of eight days or less. <i>FY 1999 baseline: 6 days.</i>	6 days	≤ 8 days		

FAFSA processing is monitored continuously to ensure standards are maintained.

Subobjective: Decrease unit costs.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Increase the number of FAFSA's filed electronically from 3.1 million last year to 4 million by September 2000. This includes any type of FAFSA submitted electronically. <i>FY 1997 baseline: 1.9 million.</i>	3.1 million	4 million		

In 1998, 2.3 million FAFSA's were filed electronically. The Department has initiated a campaign to increase the number of web-based FAFSA's by producing promotional kits for high schools, libraries, postsecondary schools and others. Students using traditional paper-based FAFSA's are notified about electronic filing options. Additionally, every 2000-2001 FAFSA filer will receive a personal identification number to encourage the use of the electronic application.

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

(Higher Education Act, Title IV, Part A, Subpart 1)

FY 2000 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$7,639,717	\$8,356,000	+\$716,283

PROGRAM DESCRIPTION

The Federal Pell Grant program helps ensure access to postsecondary education for low- and middle-income undergraduate students by providing grants that, in combination with other sources of student aid, help meet postsecondary education costs. The program also promotes lifelong learning by encouraging low-income adults now in the workplace to return to school to upgrade their skills. The Pell Grant program is the program in the SFA account most targeted to needy students.

Appropriations for the Pell Grant program are discretionary and not based on entitlement. The Department provides funds to participating institutions to pay all students at the institution who are eligible for a Pell Grant—a student's eligibility is not dependent on the availability of funds awarded to the institution as it is in the campus-based programs.

A Pell Grant is generally considered to be the foundation of a student's financial aid package, to which other forms of aid are added. The amount of a student's Pell Grant is dependent on the student's "expected family contribution" (EFC) and cost of education, whether the student attends school full-time or part-time, and whether his or her program is a full academic year in length or less. Pell Grant disbursements are made to students at least once every term during the award year or at the beginning and mid-point for programs without terms.

The Pell Grant program is a two-year funded program. Funds become available for obligation on October 1 of the fiscal year in which they are appropriated and remain available through September 30 of the following year. Funds from the 2001 fiscal year appropriation will be used for grants in the 2001-2002 award year, which runs from July 1, 2001 through June 30, 2002.

The need analysis formula for the Title IV need-based student aid programs, stipulated in the Higher Education Act, determines financial eligibility for Pell Grants and is applied uniformly to all applicants. This formula determines a student's EFC. The fundamental elements in the formula are the student's and, in the case of dependent students, their parents' income and assets (excluding the value of the family's home or farm), the family's household size, and the number of family members (excluding the student's parents) attending postsecondary institutions. The EFC is the sum of (1) a percentage of net income (remaining income after

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

subtracting allowances for taxes and basic living expenses), and (2) a percentage of net assets (assets remaining after subtracting an asset protection allowance). Different assessment rates and allowances are used for dependent students, independent students, and independent students with dependents.

Institutional participation: Approximately 5,700 postsecondary institutions currently participate in the Pell Grant program. Institutions that lose their eligibility to participate in the loan programs due to high default rates are also precluded from participation in the Pell Grant program for the same period of time.

Student participation: Students may use their grants at any one of the participating postsecondary institutions. Pell Grants are disbursed to the student through the institution. The Pell Grant program is the largest source of grant aid to students under the Higher Education Act—nearly one in four undergraduate students enrolled in postsecondary education currently receives a Pell Grant.

Recipients must be undergraduates (with the exception of certain teacher certificate programs) and enrolled with the purpose of obtaining a degree or certificate at an eligible institution. Students must also have a high school diploma (or its equivalent) or a demonstrated ability to benefit (as shown by a passing score on a test approved by the Department) from the training offered by the institution. Less than full-time students are eligible for prorated awards based on their enrollment status.

A student already in default on a loan made under any Title IV, HEA loan program, or who owes an overpayment on any other previously received Federal student aid, may not receive additional funds under the program unless he or she repays the debt in full, or makes satisfactory repayment arrangements with the holder of the debt.

The annual award amount may vary from the statutory minimum of \$400 up to the maximum authorized by statute for the academic year. Appropriations acts routinely set annual maximum award levels. The Higher Education Act specifies an authorized maximum award for the 2000-2001 and 2001-2002 award years at \$4,800 and \$5,100, respectively. The proposed maximum award for the 2001-2002 award year is \$3,500.

Award rules: The Pell Grant award is the least of the following three amounts:

- The maximum award minus the EFC,
- The student's cost of attendance minus the EFC, or
- In any year for which an appropriation act provides a maximum award in excess of \$2,700, the sum of: (1) \$2,700 plus one-half the difference between the maximum award and \$2,700; and (2) the lesser of: (a) the remaining one-half of the difference between the maximum award and \$2,700, or (b) the sum of the student's tuition, fees, and allowances as determined by the institution, for dependent care and disability-related expenses. In the case of an institution that only charges fees in lieu

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

of tuition, as of October 1, 1998, fees that would normally constitute tuition may be used by the institution to determine the amount of tuition charged.

Cost of attendance: For purposes of determining the Pell Grant award, the postsecondary institution establishes the cost of attendance and includes the following components:

- Tuition and fees,
- An allowance for books, supplies, transportation, and miscellaneous expenses, and a new provision to include a reasonable allowance for the documented rental or purchase of a personal computer,
- Living allowances of:
 - the actual amount charged by the institution for room and board for students living at school,
 - an amount determined by the institution for students without dependents living at home with parents, and
 - for all other students, an amount based on the expenses reasonably incurred for room and board.

The cost of attendance for less-than-half-time students includes: tuition and fees; an allowance for books, supplies and transportation; and dependent care.

Financial aid administrator discretion: The HEA stipulates that financial aid administrators may, on the basis of adequate documentation, and on a case-by-case basis, adjust a student's Pell Grant award by changing the cost of attendance or the value of data elements used to calculate the EFC to reflect "special circumstances" such as the following:

- Tuition expenses at an elementary or secondary school;
- Medical or dental expenses not covered by insurance;
- Unusually high child care costs;
- Recent unemployment of a family member;
- The number of parents enrolled at least half-time in a degree or certificate or other program leading to a recognized educational credential at an institution that participates in the Title IV programs; or
- Other changes in a family's income, assets, or a student's status.

STUDENT FINANCIAL ASSISTANCE

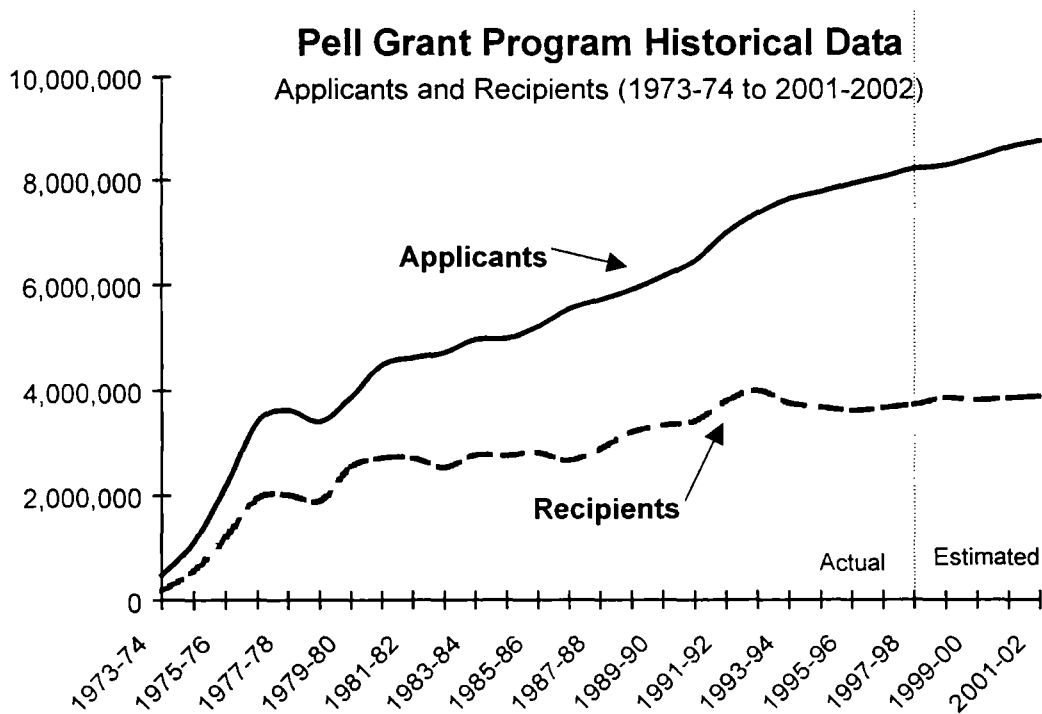
Federal Pell grants

Institutional payments: The HEA provides for payment to institutions of \$5 per Pell Grant recipient to reimburse institutions for a share of the cost of administering the Pell Grant program. Funds for these payments are paid from the Pell Grant appropriation.

Program history:

Applicant and Recipient Growth: The graph below shows the trends in applicant and recipient growth since the inception of the Pell Grant program.

Many factors affect *applicant growth*, including demographic trends and changes in economic conditions, such as labor market demands. Many factors also affect *recipient growth*, including family incomes, need analysis, the level of the maximum Pell Grant award, and changes in applicant levels. Data for award years 1998-1999 through 2001-2002 are estimated.



STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

Distribution of Pell Grants by Student Status and Income Level:

The tables below illustrate the distribution of Pell Grant funds to dependent and independent students at various income levels. In 1997-1998, approximately 87 percent of all Pell Grant recipients (including independent students) had incomes less than or equal to \$30,000 and only 13 percent had incomes over \$30,000.

Distribution of Pell Grants in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
Dependent:			
0 - \$ 6,000	196,260	\$420,420,387	\$2,142
\$6,001 - \$ 9,000	118,358	\$255,771,638	\$2,161
\$9,001 - \$20,000	518,421	\$1,060,089,597	\$2,045
\$20,001 - \$30,000	460,478	\$754,723,442	\$1,639
\$30,001 +	345,353	\$374,346,537	\$1,084
Subtotal - Dependent	1,638,870	\$2,865,351,601	\$1,748
Independent	2,093,937	\$3,465,470,477	\$1,655
TOTAL	3,732,807	\$6,330,822,078	\$1,696

Independent students make up more than half of the students receiving assistance under the Pell Grant program. These recipients tend to be in the lowest income groups as shown below.

Distribution of Pell Grants to Independent Students in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
0 - \$ 1,000	177,017	\$355,093,883	\$2,006
\$1,001 - \$ 3,000	221,613	\$445,442,130	\$2,010
\$3,001 - \$ 6,000	398,064	\$717,709,392	\$1,803
\$6,001 - \$ 9,000	332,175	\$467,038,050	\$1,406
\$9,001 - \$15,000	329,768	\$565,881,888	\$1,716
\$15,001 - \$20,000	220,573	\$388,208,480	\$1,760
\$20,001 - \$30,000	284,120	\$412,258,120	\$1,451
\$30,001 +	130,607	\$113,838,534	\$872
TOTAL	2,093,937	\$3,465,470,477	\$1,655

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

Distribution of Pell Grants by Type of Institution:

The table below shows the distribution of Pell Grants to students attending different types of institutions in 1997-1998.

Distribution of Pell Grants by Type of Institution 1997-1998			
Institution Type	Recipients	Available Aid	Average Award
Public 4-Year	1,288,794	\$2,305,254,925	\$1,789
Public 2-Year	1,311,119	\$2,073,785,831	\$1,582
Private	663,716	\$1,180,597,413	\$1,779
Proprietary	469,178	\$771,183,910	\$1,644
TOTAL	3,732,807	\$6,330,822,078	\$1,696

Funding levels for the past 5 fiscal years were as follows:

(\$000s)

1996.....	\$4,913,560 ¹
1997.....	5,919,000
1998.....	7,344,934
1999.....	7,704,000
2000.....	7,639,717 ²

¹ Reflects a transfer of \$.44 million to the Office of the Inspector General pursuant to the authority provided by Section 308 of the Department of Education Appropriations Act of 1996.

² Reflects a rescission of \$60.283 million pursuant to the Department of Education Appropriations Act, 2000, as enacted by section 1000(a)(5) of the Consolidated Appropriations Act, 2000 (P.L. 106-113).

FY 2001 BUDGET REQUEST

The Administration's FY 2001 budget proposal for the Pell Grant program supports the strategic goal of ensuring access to postsecondary education and lifelong learning. Studies show that Pell Grants are successful in helping low-income students overcome financial barriers to postsecondary education.

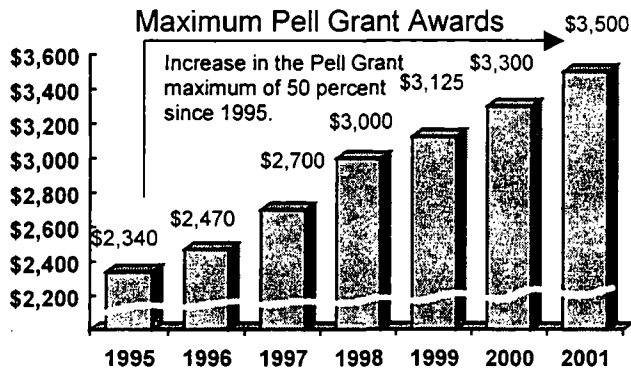
The FY 2001 Pell Grant budget is \$8.356 billion, an increase of \$716.283 million, or 9.4 percent, above the FY 2000 appropriation. This level of funding would support a 6 percent increase in the maximum Pell Grant award, to \$3,500 for award year 2001-2002, and provide Pell Grants to an estimated 3.9 million students, approximately 36,000 more students than the projected number of students who will receive awards in award year 2000-2001. A \$200 increase in the maximum award would cover cost inflation at the average high-cost 4-year private institution while providing a real increase at most public institutions.

STUDENT FINANCIAL ASSISTANCE

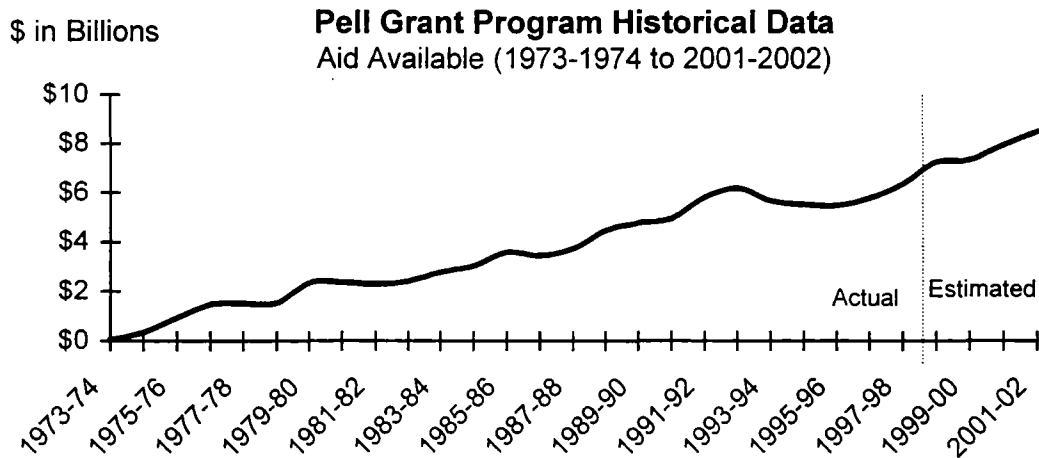
Federal Pell grants

The proposed level reflects the use of \$132 million from a cumulative surplus of unobligated balances from previous award years, and from projected program costs for the 1999-2000 and 2000-2001 award years below the total appropriations for those years. The estimated surplus is based primarily on a lower than expected eligibility rate among valid Pell Grant applicants in all dependency categories. Data show that family incomes continue to grow at a rate faster than inflation resulting in more applicants with higher incomes and, therefore, higher EFCs for many Pell Grant applicants.

Maximum Award: Under the Administration's FY 2001 budget, the maximum award would be increased to \$3,500, the highest ever and an increase of \$200 over the FY 2000 level.



Aid Available: The Administration's FY 2001 proposal would provide a total of \$8.469 billion in available aid under the Pell Grant program, which would represent a 6.7 percent increase over the estimated amount that Pell Grant recipients will receive in FY 2000.



Number of Recipients: At the proposed level approximately 3.9 million recipients would receive assistance under the Pell Grant program.

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information including: goals; indicators; targets; and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this and other programs supporting the performance goals and objectives.

Because the SFA programs are designed to work together, several performance indicators and strategies that apply to all of the SFA programs are discussed in the Summary of Request and are not repeated here.

Other performance indicators and strategies for this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

Performance goal: To help ensure access to high-quality education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially-sound, and customer responsive manner.

Objective: Ensure that low- and middle-income students will have the same access to postsecondary education that high-income students do.

Indicator	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Student income distribution. Pell Grant funds will continue to be targeted to those students with the greatest financial need. At least 75% of Pell Grant funds will go to students below 150% of the poverty level. <i>FY 1998 Baseline: 76%.</i>	76%	≥75%	≥75%	≥75%

The indicator is based on SFA program data that is available on an annual basis. The Department will monitor the relationship between the maximum grant and the distribution of aid by family income. Targeting policies will be recommended as needed to ensure that at least 75 percent of available funding is targeted to students from families with incomes below the 150 percent of poverty threshold.

STUDENT FINANCIAL ASSISTANCE

Federal Pell grants

PROGRAM OUTPUT MEASURES

(\$000s)	<u>1999</u>	<u>2000</u>	<u>2001</u>
Recipients	3,810,000	3,849,000	3,885,000
Aid available to students ¹	\$7,326,000	\$7,940,000	\$8,469,000
Maximum grant (in whole \$)	\$3,125	\$3,300	\$3,500
Minimum grant (in whole \$)	\$400	\$400	\$400
Average grant (in whole \$)	\$1,923	\$2,063	\$2,180

¹ Aid available reflects the estimated cost of the program minus administrative costs of \$5 per recipient.

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

(Higher Education Act, Title IV, Part A, Subpart 3)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u> ¹	<u>2001</u>	<u>Change</u>
\$631,000	\$691,000	+\$60,000

¹ Includes \$10 million Emergency Appropriation for victims of Hurricanes Dennis and Floyd.

PROGRAM DESCRIPTION

The Federal Supplemental Educational Opportunity Grant (SEOG) program supports the Department's strategic goal of ensuring access to postsecondary education and lifelong learning by providing need-based grant aid to eligible undergraduate students to help reduce financial barriers to postsecondary education. Federal funding allocations for this purpose are awarded to qualifying postsecondary institutions under a statutory formula. Unlike the Pell Grant program, the SEOG program is administered by institutional financial aid administrators who have substantial flexibility in determining student awards.

The SEOG program is a two-year funded program. Funds become available for obligation on October 1 of the fiscal year in which they are appropriated and remain available through September 30 of the following year. Funds from the 2001 fiscal year appropriation will be used for the 2001-2002 award year, which runs from July 1, 2001 through June 30, 2002.

Institutional participation: Nearly 3,800 postsecondary institutions receive funds under the SEOG program. As mandated by statute, funds are distributed to institutions first on the basis of the institution's fiscal year 1999 SEOG program base guarantee and pro rata share, and then on the basis of the aggregate need of the eligible undergraduate students in attendance.

Institutional matching: Participating institutions are required by statute to contribute at least 25 percent of the SEOG award amounts. In other words, the institution provides one dollar for every three Federal dollars. The institutional share can be met using the institution's own resources, State grants, and funds from foundations or other charitable organizations.

Student participation: Students qualify for grants of up to \$4,000 by demonstrating financial need under a statutory need analysis system. By statute, institutions must give first priority for awards to students with demonstrated "exceptional need" (students with the lowest expected family contribution at the institution) who are also Pell Grant recipients. Remaining awards are then available for students with exceptional need who are not Pell Grant recipients.

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

In addition, if the institution's SEOG allocation is based in part on the financial need demonstrated by students who are independent students or attending the institution less-than-full-time, then a reasonable portion of the allocation must be made available to such students.

However, a student already in default on a loan made under any Title IV, HEA loan program, or who owes an overpayment on any other previously received Federal student aid, may not receive additional funds under the program unless he or she repays the debt in full, or makes satisfactory repayment arrangements with the holder of the debt.

Institutional administrative provisions:

- Administrative costs. Each institution's administrative cost allowance is based upon its expenditures for all three campus-based programs, excluding the amount of Perkins loans assigned to the Department. Under a statutory formula, an institution may use up to 5 percent of the first \$2.75 million of its program expenditures; plus up to 4 percent of expenditures greater than \$2.75 million but less than \$5.5 million; and up to 3 percent of expenditures greater than \$5.5 million during an award year to meet administrative costs associated with the SEOG, Work-Study, and Perkins loan programs.
- Transferability of funds. An institution may transfer up to 25 percent of its allotment from Perkins loans to SEOG or Work-Study (or both) and up to 25 percent of Work-Study to SEOG. Up to 10 percent of an institution's SEOG funds may, at the discretion of the institution, be used for expenditures for the preceding fiscal year, and up to 10 percent of an institution's SEOG funds may remain available for the next fiscal year.
- Reallocation of funds. If funds become available because of under-utilization by institutions, excess funds are reallocated to other institutions in accordance with program regulations. If an institution returns more than 10 percent of its allocation, that institution's allocation is reduced by that same amount the next year.

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

Distribution of SEOG Funds by Student Status and Income Level:

The tables below (structured to provide a common basis of comparison among the programs in the SFA account) show the distribution of SEOG funds to dependent and independent students at various income levels in 1997-1998. In 1997-1998, over 75 percent of dependent SEOG recipients had family income levels under \$30,000 and nearly 87 percent of independent SEOG recipients had family income levels under \$20,000.

Distribution of SEOG in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
Dependent:			
0 - \$ 5,999	61,626	\$52,398,931	\$850
\$6,000 - \$11,999	78,843	\$63,628,442	\$807
\$12,001 - \$23,000	189,481	\$168,078,109	\$887
\$24,000 - \$29,999	80,575	\$76,438,065	\$949
\$30,000 +	133,159	\$128,754,338	\$967
Subtotal – Dependent	543,684	\$489,297,885	\$900
Independent	572,012	\$321,937,014	\$563
TOTAL	1,115,696	\$811,234,899	\$727

Distribution of SEOG to Independent Undergraduates in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
0 - \$ 1,999	101,077	\$64,622,981	\$639
\$2,000 - \$ 3,999	77,377	\$46,902,270	\$606
\$4,000 - \$ 7,999	132,639	\$75,604,617	\$570
\$8,000 - \$11,999	79,455	\$42,723,174	\$538
\$12,000 - \$15,999	59,906	\$30,634,561	\$511
\$16,000 - \$19,999	45,666	\$22,818,740	\$500
\$20,000 +	75,892	\$38,630,671	\$509
TOTAL	572,012	\$321,937,014	\$563

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

Distribution of SEOG Funds by Type of Institution:

The distribution of SEOG assistance to institutions is controlled by a statutory distribution formula. The distribution of SEOG among different types of institutions has remained relatively constant over time, with the majority of funding focused on students attending 4-year institutions.

The table below shows the distribution of SEOG to students attending different types of institutions in 1997-1998.

Distribution of SEOG by Type of Institution 1997-1998			
Institution Type	Recipients	Available Aid	Average Award
Public 4-Year	385,863	\$295,710,874	\$766
Public 2-Year	297,939	\$123,327,682	\$414
Private	299,959	\$334,981,606	\$1,117
Proprietary	131,935	\$57,214,737	\$434
TOTAL	1,115,696	\$811,234,899	\$727

Funding levels for the past 5 fiscal years were as follows:

(\$000s)

1996.....	\$583,407
1997.....	583,407
1998.....	614,000
1999.....	619,000
2000.....	631,000 ¹

¹ Includes \$10 million Emergency Appropriation for victims of Hurricanes Dennis and Floyd.

FY 2001 BUDGET REQUEST

To bolster the impact of Federal grant aid for needy students in an environment of ever-increasing costs of attendance, the Administration proposes \$691 million (\$60 million or 9.5 percent over the FY 2000 appropriation) for the SEOG program in FY 2001. A 9.5 percent increase is approximately twice the projected rate of increase in college costs between 2000 and 2001. This level of funding would leverage \$218.7 million in institutional matching funds to make available a total of approximately \$875 million in aid to an estimated 1.2 million recipients.

The SEOG program, in conjunction with the other campus-based programs and the Pell Grant program, ensures access to postsecondary education and lifelong learning for undergraduates. Studies show that grants have a more positive effect on reducing attrition than loans, especially

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

among low-income students. The requested increase in funding is important to the Department's strategy of decreasing the gap in completion rates between low- and high-income students.

The statutory priority given to Pell Grant recipients and those with the lowest EFC targets aid to the neediest students. According to the 1995-1996 National Postsecondary Student Aid Survey (NPSAS) over 63 percent of those students who received an SEOG award had a zero EFC.

The SEOG program serves as an important source of funding for providing low-income students access to 4-year institutions. For example, under the President's proposal, a student with a zero EFC who receives the maximum Pell Grant award and the average SEOG award would have more than \$4,200 in grant aid, which would more than cover one year's projected tuition at a 4-year public university in 2001.

At 4-year private colleges and universities, over half of the total number of dependent students who receive SEOG awards have family incomes under \$24,000. At 4-year public institutions, over 61 percent of the dependent students who receive SEOG awards are from these family income levels.

The SEOG program is one of the three campus-based programs that provide institutions with flexibility in developing financial aid packages that best meet the needs of their students. This versatility promotes the SFA programs' objective of providing an appropriate combination of grant, loan, and work-study assistance to enable students from families with need who have the desire and the ability to attend, to finance their postsecondary education.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information including: goals; indicators; targets; and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this and other programs supporting the performance goals and objectives.

Because the SFA programs are designed to work together, several performance indicators and strategies that apply to all of the SFA programs are discussed in the Summary of Request and are not repeated here.

Other performance indicators and strategies for this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

Performance goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially-sound, and customer-responsive manner.

STUDENT FINANCIAL ASSISTANCE

Federal supplemental educational opportunity grants

No measurable objectives or indicators that are specific for this program have been developed for this goal. Instead, measurable objectives and indicators that apply to all of the SFA programs are included in the Summary of Request.

PROGRAM OUTPUT MEASURES

(\$000s)	<u>1999</u>	<u>2000</u>	<u>2001</u>
Recipients	1,118,000	1,139,000	1,203,000
Aid available to students ¹	\$784,000	\$799,000	\$875,000
Average award (whole \$)	\$701	\$701	\$727

¹ Aid available includes budget authority, institutional matching funds, transfers from Perkins Loans and Federal Work-Study, minus administrative costs.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

(Higher Education Act, Title IV, Part C)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000</u>	<u>2001</u>	<u>Change</u>
\$934,000	\$1,011,000	+\$77,000

PROGRAM DESCRIPTION

The Federal Work-Study program ensures access by assisting needy undergraduate and graduate students in financing postsecondary education costs through part-time employment. Federal funds for this purpose are distributed to qualifying institutions whose financial aid administrators select qualified needy students for employment. Students may be employed by the institution itself; by a Federal, State, or local public agency or private nonprofit organization; or by a private for-profit organization.

The Work-Study program is a two-year funded program. Funds become available for obligation on October 1 of the fiscal year in which they are appropriated and remain available through September 30 of the following year. Funds from the 2001 fiscal year appropriation will be used for the 2001-2002 award year, which runs from July 1, 2001 through June 30, 2002.

Institutional participation: Approximately 3,400 institutions participate in the Work-Study program. As mandated by statute, funds are distributed to institutions first on the basis of the institution's fiscal year 1999 Work-Study program base guarantee and pro rata share, and then on the basis of the aggregate need of the eligible undergraduate students in attendance. The Work-Study program is administered by institutional financial aid administrators who have substantial flexibility in determining student awards.

If an institution is a proprietary school employing its own students, this employment must be: (1) on campus, except that at least 7 percent of the total funds granted must be used to compensate students employed in community services; (2) related, to the maximum extent practicable, to the student's educational objectives; and (3) related to providing student services. The employment tasks of Work-Study students, however, must not involve the solicitation of potential students to enroll in the school.

Institutional matching: In general, participating institutions or other employers must contribute at least 25 percent of a student's part-time earnings (or 50 percent in the case of private-for-profit employers). The Federal share may be up to 90 percent for students employed at a public or nonprofit private organization that would otherwise be unable to afford the costs of employing those students. Not more than 10 percent of the institution's Work-Study students during an academic year may be employed in positions for which the Federal share exceeds 75 percent.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

In addition, the Secretary may authorize through regulations, a Federal share in excess of 75 percent based on the determination that it is necessary for the advancement of the program.

Institutional administrative provisions: Institutions may use their allocations to support a variety of Work-Study activities, as described below:

- Community service. An institution must use at least 7 percent of its Federal allocation for payments to students employed in community service activities and must ensure that at least one tutoring or family literacy project is included in such activities. Other Work-Study programs that qualify for community service status include community-accessible childcare and assistance for disabled students. The eligible institution, at its discretion, may count any contribution made by the employer toward the non-Federal share of the student's compensation.
- Tutoring and literacy activities. An institution must include at least one tutoring or family literacy project as part of its community service activities. Under this requirement, priority is to be given to the employment of Work-Study recipients as reading tutors in schools that are participating in a reading reform project designed to train teachers to teach reading on the basis of scientifically-based research on reading, and which is funded under the Elementary and Secondary Education Act of 1965, as amended. In 1997-1998, some 21,872 Work-Study students were employed as reading tutors.
- Private sector. An institution may use up to 25 percent of its Work-Study allocation to match earnings of students working for private for-profit organizations. Students must, to the maximum extent practicable, be placed in jobs that are academically relevant to their course of study. Work-Study funds may not be used to pay any employee who would otherwise be employed by the private organization.
- Job Location and Development. An institution may use not more than 10 percent or \$50,000 of its Work-Study allocation, whichever is less, for the administrative expenses associated with the establishment or expansion of a Job Location and Development (JLD) program, which locates and develops off-campus part-time jobs or community service jobs for currently enrolled students. The Federal share of the JLD program costs cannot exceed 80 percent.
- Work Colleges. A "Work College" is an institution that requires all resident students to participate in a work-learning program as an integral part of the institution's educational philosophy. These colleges are authorized to receive special awards in addition to their regular Work-Study allocations to support such programs. Work Colleges must match Federal allocations on a dollar-for-dollar basis. In addition, Work Colleges may transfer all of their regular Work-Study, and Perkins FCC allotments for use under the Work Colleges program.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

- Administrative costs. Each institution's administrative cost allowance is based upon its expenditures for all three campus-based programs, excluding the amount of Perkins loans assigned to the Department. Under a statutory formula, an institution may use up to 5 percent of the first \$2.75 million of its program expenditures; plus up to 4 percent of expenditures greater than \$2.75 million but less than \$5.5 million; and up to 3 percent of expenditures greater than \$5.5 million during an award year to meet administrative costs associated with the SEOG, Work-Study, and Perkins loan programs.
- Transferability of funds. An institution may transfer up to 25 percent of its allocation from Perkins loans to SEOG or Work-Study (or both) and up to 25 percent of Work-Study to SEOG. Up to 10 percent of an institution's Work-Study funds may, at the discretion of the institution, be used for expenditures for the preceding fiscal year. In addition, up to 10 percent of an institution's Work-Study funds may, at the discretion of the institution, remain available for the next fiscal year.
- Reallocation. If funds become available because of under-utilization by institutions, excess funds are reallocated only to other institutions that used at least 5 percent of their Work-Study allocations to compensate students employed in tutoring in reading and family literacy activities in the preceding year. Reallocated funds must be used to support student employment in community service activities.

Student participation: Students qualify for Work-Study awards by demonstrating financial need under the general statutory need analysis system for the Federal student financial assistance programs. Hourly earnings must not be less than the current Federal minimum wage of \$5.15 per hour.

In addition, if the institution's Work-Study allocation is based in part on the financial need demonstrated by students who are independent students or attending the institution less-than-full-time, then a reasonable portion of the allocation must be made available to such students. However, a student already in default on a loan made under any Title IV, HEA loan program, or who owes an overpayment on any other previously received Federal student aid, may not receive additional funds under the program unless he or she repays the debt in full, or makes satisfactory repayment arrangements with the holder of the debt.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

Distribution of Work-Study Funds by Student Status and Income Level:

The tables below (structured to provide a common basis of comparison among the programs in the SFA account) illustrate the distribution of Work-Study funds to dependent students and the distribution to independent students at various income levels for 1997-1998.

Distribution of Work-Study in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
Dependent:			
0 - \$ 5,999	32,225	\$36,369,159	\$1,129
\$6,000 - \$11,999	36,380	\$42,361,744	\$1,164
\$12,001 - \$23,000	101,128	\$120,794,639	\$1,194
\$24,000 - \$29,999	57,353	\$67,041,223	\$1,169
\$30,000 +	313,679	\$339,310,506	\$1,082
Subtotal - Dependent	540,765	\$605,877,271	\$1,120
Independent:			
Undergraduate	162,421	\$211,683,458	\$1,303
Graduate	42,678	\$88,873,756	\$2,082
TOTAL	745,864	\$906,434,485	\$1,215

Distribution of Work-Study to Independent Undergraduates in 1997-1998			
Income Level	Recipients	Available Aid	Average Award
0 - \$ 1,999	31,291	\$40,526,492	\$1,295
\$2,000 - \$ 3,999	25,663	\$33,833,604	\$1,318
\$4,000 - \$ 7,999	43,335	\$58,341,282	\$1,346
\$8,000 - \$11,999	22,566	\$30,250,803	\$1,341
\$12,000 - \$15,999	13,352	\$17,067,321	\$1,278
\$16,000 - \$19,999	8,691	\$10,635,286	\$1,224
\$20,000 +	17,523	\$21,028,670	\$1,200
TOTAL	162,421	\$211,683,458	\$1,303

STUDENT FINANCIAL ASSISTANCE

Federal work-study

Distribution of Work-Study Funds by Type of Institution:

The Work-Study program is a campus-based program and the distribution of funds to institutions is controlled by a statutory distribution formula. As a result, the distribution of Work-Study assistance among different types of institutions has remained relatively constant over time. The table below shows the distribution of Work-Study to students attending different types of institutions in 1997-1998.

Distribution of Work-Study by Type of Institution 1997-1998			
Institution Type	Recipients	Available Aid	Average Award
Public 4-Year	266,938	\$343,897,490	\$1,288
Public 2-Year	101,766	\$129,096,663	\$1,269
Private	363,576	\$414,932,950	\$1,141
Proprietary	13,584	\$18,507,382	\$1,362
TOTAL	745,864	\$906,434,485	\$1,215

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996.....	\$616,508
1997.....	830,000
1998.....	830,000
1999.....	870,000
2000.....	934,000

FY 2001 BUDGET REQUEST

The Administration proposes \$1.011 billion for the Federal Work-Study program, an increase of \$77 million, or 8.2 percent, over the FY 2000 level. This level of funding would provide approximately \$1.216 billion in available aid to an estimated 1 million students in FY 2001.

The Work-Study program and the other Campus-Based programs provide institutions with flexibility in developing financial aid packages that best meet the needs of their students. This versatility promotes the SFA programs' objective of providing an appropriate combination of grants, loans, and work-study assistance to enable students from low- and middle-income levels to fulfill their postsecondary education goals.

Work-Study is an important part of the Department's postsecondary access and retention strategy. Furthermore, the program leverages Federal funds, as private employers pay at least 50 percent of a student's Work-Study wages, and public employers pay at least 25 percent. Leveraging funds allows more students to derive benefits from a given level of Federal funding.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

Work-Study is a unique form of student financial assistance in that it does not just provide students with funds for college. Work-Study provides students with practical work experience—an opportunity to learn general job-related skills and explore career opportunities. Work-Study recipients learn time management skills, the importance of planning, how to set priorities, and other skills that are attractive to employers. The Work-Study program encourages institutions to relate Work-Study jobs to students' academic studies. Studies show that work has an increased impact on academic performance when a student's job is more closely related to his or her course of study.

Community Service Activities:

The Work-Study program has a long tradition of providing opportunities for students to perform community service activities—supporting an important cooperative link between students, colleges and the local community. At least 7 percent of an institution's Work-Study allotment must be used to pay students employed in community service jobs, unless the institution obtains a waiver from the Department.

The President has asked colleges to participate in the America Reads Challenge by offering opportunities for their Work-Study students to help meet the goal of ensuring that all children can read well and independently by the end of the third grade. America Reads Work-Study tutors also participate in family literacy programs working with both children and their parents. There is special emphasis given to prepare parents to read to their own children.

Additionally, in an effort to combat deficiencies in math, as well as reading skills, beginning on July 1, 1999, the President extended the America Counts Challenge to colleges and universities. America Counts, analogous to America Reads, allows Work-Study funds to finance math tutors for children in order to meet the program goal of helping children master challenging mathematics, including the foundations of algebra and geometry, by the end of the eighth grade.

To encourage participation in America Reads and America Counts, the Department has waived the usual 25 percent institutional contribution, allowing Work-Study funds to pay up to 100 percent of the wages for students who tutor young children in mathematics, reading, or who serve in family literacy programs.

So far, over 1,300 colleges and universities have accepted the President's America Reads Challenge, and 392 colleges and universities have initiated America Counts programs, and have sent Work-Study students into their communities and neighboring schools to provide extra assistance in mathematics and reading for children and families who need it.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

Distribution of Work-Study Funds to Students in Community Service Activities:

The table below shows the distribution of Work-Study assistance to students employed in community service activities in 1997-1998.

Distribution of Work-Study to Students in Community Service Activities in 1997-1998			
Type of Institution	Recipients	Available Aid	Average Award
Public 4-Year	35,296	\$45,037,694	\$1,276
Public 2-Year	14,699	\$17,952,305	\$1,221
Private 4-Year	37,034	\$44,056,857	\$1,190
Private 2-Year	1,359	\$1,253,726	\$923
Proprietary	2,861	\$3,903,228	\$1,364
TOTAL	91,249	\$112,203,810	\$1,230

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information including: goals; indicators; targets; and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this and other programs supporting the performance goals and objectives.

Because the SFA programs are designed to work together, several performance indicators and strategies that apply to all of the SFA programs are discussed in the Summary of Request and are not repeated here.

Other performance indicators and strategies for this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

STUDENT FINANCIAL ASSISTANCE

Federal work-study

Performance goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially-sound, and customer-responsive manner.

Objective: Encourage postsecondary students to engage in community service.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Community Service. The percent of Federal Work-Study program funds spent on community service, particularly for <u>America Reads</u> and <u>America Counts</u> , will increase over time. <i>FY 1996 baseline: 11 percent.</i>				

The indicator is based on SFA program data that are available on an annual basis. In the 1997-1998 award year, the latest for which data are available, 10 percent of Work-Study funds were spent on community service jobs. Additionally, 2.5 percent of Work-Study funds were spent on America Reads. Because it is not known what percent of spending on America Reads meets the statutory definition of community service it is measured separately although it is likely that there is a great deal of overlap. The slight decline in Work-Study funds spent on community service between FYs 1996 and 1997 is likely the result of the large increase in funding between the two years. Community Service positions are much more difficult to establish than other positions. The percentage should increase as institutions adjust to the increased funding levels.

PROGRAM OUTPUT MEASURES

<u>(\$000s)</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Recipients	930,000	1,000,000	1,000,000
Aid available to students ¹	\$1,044,000	\$1,123,000	\$1,216,000
Average award (whole \$)	\$1,123	\$1,123	\$1,215

¹ Aid available includes budget authority and employer-matching funds, minus administrative costs, transfers to SEOG, or reservations of funds for the next year.

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans: (a) Federal capital contributions (b) Loan cancellations (Higher Education Act, Title IV, Part E)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Federal Perkins loans:			
(a) Capital contributions	\$100,000	\$100,000	0
(b) Loan cancellations	<u>30,000</u>	<u>60,000</u>	<u>\$30,000</u>
Total	130,000	160,000	30,000

PROGRAM DESCRIPTION

The Federal Perkins Loan program ensures access by providing long-term, low-interest loans to financially needy undergraduate and graduate students to help meet their higher education costs. Loans are made from institutional revolving funds composed of: (1) newly appropriated Federal capital contributions (FCC); (2) institutional matching funds equaling at least one-third of the FCC; (3) school-level collections on prior-year student loans; and (4) Federal payments for loan cancellations granted in exchange for specific types of teaching, or military or public service.

The Perkins Loan program is a two-year funded program. Funds become available for obligation on October 1 of the fiscal year in which they are appropriated and remain available through September 30 of the following year. Funds from the 2001 fiscal year appropriation will be used for the 2001-2002 award year, which runs from July 1, 2001 to June 30, 2002.

Institutional participation: Approximately 2,000 postsecondary institutions make loans under the Perkins Loan program. As mandated by statute, funds are distributed to institutions first on the basis of the institution's fiscal year 1999 Perkins Loan program FCC base guarantee and pro rata share, and then on the basis of the aggregate need of the eligible students in attendance. The Perkins Loan program is administered by institutional financial aid administrators who have substantial flexibility in determining student awards.

Institutional matching: Institutions contribute one-third of the FCC in institutional matching funds.

Default rate provisions: A school's FCC allocation is reduced to zero at a cohort default rate of 25 percent. If a school's cohort default rate is less than 25 percent, it qualifies for the full allocation amount pursuant to the statutory formula. In general, a school's participation in the program is terminated if its default rate exceeds 50 percent for three consecutive years. The national cohort default rate as of June 30, 1998, the latest available, was 12.47 percent.

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

Institutional administrative provisions:

- Loan Servicing and collections. Schools are responsible for making loans, servicing, and collections; including the establishment of repayment schedules and borrower counseling. Most servicing and collection activities are performed by private contractors employed by the schools. Collections on existing loans are estimated to be \$945 million in fiscal year 2000.
- Loan Rehabilitation: Institutions participating in the Perkins Loan program are authorized to establish a loan rehabilitation program for all defaulted borrowers. Loan rehabilitation allows the institution to eliminate the loan from default rate calculations. In order to rehabilitate a defaulted loan, a borrower would be required to make 12 consecutive on-time monthly payments to the institution. A loan can only be rehabilitated 1 time. The first payment of the dictated 12-month cycle is considered the first payment of a new 10-year payment cycle. The institution must update the borrower's loan status with any credit bureau to which the default was reported.
- Administrative costs. Each institution's administrative cost allowance is based upon its expenditures for all three campus-based programs, excluding the amount of Perkins loans assigned to the Department. Under a statutory formula, an institution may use up to 5 percent of the first \$2.75 million of its program expenditures; plus up to 4 percent of expenditures greater than \$2.75 million but less than \$5.5 million; and up to 3 percent of expenditures greater than \$5.5 million during an award year to meet administrative costs associated with the SEOG, Work-Study, and Perkins loan programs.
- Transferability of funds. An institution may transfer up to 25 percent of its FCC allotment from Perkins loans to SEOG or Work-Study, or both.
- Reallocation of funds. If funds become available because of under-utilization by institutions, excess funds are reallocated to other institutions based on a statutory formula. If an institution returns more than 10 percent of its allocation, that institution's allocation is reduced by that same amount the next year.

Student participation: Students qualify for loans by demonstrating financial need under the statutory Federal student aid need analysis system. An eligible borrower is a needy undergraduate, graduate, or professional student enrolled at an eligible postsecondary institution. In addition, if the institution's Perkins loans allocation is based in part on the financial need demonstrated by students who are independent students or attending the institution less-than-full-time, then a reasonable portion of the allocation must be made available to such students. However, a student already in default on a loan made under any Title IV, HEA loan program, or who owes an overpayment on any other previously received Federal student aid, may not borrow under the program unless he or she repays the debt in full, or makes satisfactory repayment arrangements with the holder of the debt.

A borrower makes no principal repayments during in-school, grace, and deferment periods, and interest is neither paid nor accrued during these periods. During the repayment period (which

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

normally may not exceed 10 years), interest is charged at a 5 percent annual rate. The maximum annual amount a student can borrow under the Perkins Loan program is \$4,000 for undergraduates and \$6,000 for graduate and professional students; \$40,000 for the combination of undergraduate and graduate study; \$20,000 for students who have completed 2 years of undergraduate education, but have not received a bachelor's degree; and \$8,000 for all other students.

Loan cancellations: In order to encourage Perkins loan borrowers to enter certain fields of public service, all or a portion of the repayment obligation on Perkins loans is canceled in exchange for specified periods of such service. Perkins loan balances are also canceled in the event of a borrower's death, or total and permanent disability.

Since October 8, 1998 (the date of enactment of the Higher Education Amendments of 1998), Perkins loan holders qualify for public service cancellation benefits regardless of the terms of their promissory notes for service on or after that date.

In general, schools are reimbursed for 100 percent of the principal amount of the loan canceled; and the reimbursement must be reinvested in the school's revolving loan fund. Institutional reimbursement for loan cancellations is an entitlement.

The areas of public service that qualify for cancellation include:

- Teaching in low-income areas and in special education, math, science, foreign language, bilingual education, and any other fields where State education agencies determine a shortage of qualified teachers exists.
- Full-time staff work in a preschool program under the Head Start Act.
- Military service in areas of hostilities and imminent danger.
- Peace Corps and ACTION service.
- Law enforcement/corrections officer service.
- Nurses and medical technicians providing health care services, professional providers of qualified early intervention services; and employees of qualified child/family service in low-income communities.

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

Distribution of Perkins Loans by Student Status and Income Levels:

The tables below (structured to provide a common basis of comparison among the programs in the SFA account) show the distribution of Perkins loans to dependent students and the distribution of Perkins loans to independent students at various income levels in 1997-1998.

Distribution of Perkins in 1997-1998			
Income Level	Recipients	Available Aid	Average Loan
Dependent:			
0 - \$ 5,999	20,316	\$29,364,028	\$1,445
\$6,000 - \$11,999	23,444	\$33,720,312	\$1,438
\$12,001 - \$23,000	78,596	\$117,284,410	\$1,492
\$24,000 - \$29,999	49,030	\$73,013,467	\$1,489
\$30,000 +	260,001	\$379,786,511	\$1,461
Subtotal Dependent	431,387	\$633,168,728	\$1,468
Independent:			
Undergraduate	160,080	\$227,386,298	\$1,420
Graduate	87,635	\$201,492,226	\$2,299
TOTAL	679,102	\$1,062,047,252	\$1,564

Distribution of Perkins to Independent Undergraduates in 1997-1998			
Income Level	Recipients	Available Aid	Average Loan
0 - \$ 1,999	25,789	\$37,130,505	\$1,440
\$2,000 - \$ 3,999	19,422	\$27,441,152	\$1,413
\$4,000 - \$ 7,999	35,600	\$50,006,806	\$1,405
\$8,000 - \$11,999	22,744	\$31,958,201	\$1,405
\$12,000 - \$15,999	15,750	\$22,852,332	\$1,451
\$16,000 - \$19,999	11,621	\$16,385,240	\$1,410
\$20,000 +	29,154	\$41,612,062	\$1,427
TOTAL	160,080	\$227,386,298	\$1,420

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

Distribution of Perkins Loans by Type of Institution:

The Perkins Loan program is a campus-based program and distribution of new capital funds to institutions is controlled by a statutory formula. The distribution of Perkins Loan assistance among different types of institutions has remained relatively constant over time.

The table below illustrates the sector distribution of Perkins loans to students in 1997-1998.

Distribution of Perkins by Type of Institution 1997-1998			
Institution Type	Recipients	Available Aid	Average Loan
Public 4-Year	318,196	\$489,216,883	\$1,537
Public 2-Year	17,702	\$22,419,812	\$1,267
Private	320,637	\$517,191,061	\$1,613
Proprietary	22,567	\$33,219,496	\$1,469
TOTAL	679,102	\$1,062,047,252	\$1,564

Funding levels for the past 5 fiscal years were as follows:

	<u>Federal Capital Contributions</u> (\$000s)	<u>Loan Cancellations</u> (\$000s)
1996.....	\$93,297	\$20,000
1997.....	158,000	20,000
1998.....	135,000	30,000
1999.....	100,000	30,000
2000.....	100,000	30,000

FY 2001 BUDGET REQUEST

The Administration proposes \$100 million in new budget authority for *Federal Capital Contributions* in the Perkins Loan program, the same as the FY 2000 appropriation. In FY 2001 the largest source of funding for new loans will continue to be from the repayment of outstanding loans to the program's institutional revolving funds. The proposed \$100 million level and the resources from borrower repayments on the outstanding loan portfolio to institutional revolving funds will be sufficient to provide over \$1.058 billion in new Perkins loans to nearly 676,000 students.

The Perkins Loan program is one of the three campus-based student aid programs that provide institutions with flexibility in developing financial aid packages that best meet the needs of their students. This versatility promotes the SFA programs' objective of providing an appropriate combination of grant, loan, and work-study funds to enable students from low- and middle-income levels to successfully complete their postsecondary education goals. The Perkins Loan program is especially valuable to campus financial aid administrators because its resources are

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

used again and again for successive classes of students as repayments are made. Loans made under the Perkins Loan program, in conjunction with the other campus-based programs and the Pell Grant program help ensure access to postsecondary education and lifelong learning.

The Administration proposes \$60 million for *Loan Cancellations*, \$30 million above the FY 2000 appropriation. These payments are necessary to pay for cancellations of loan obligations of borrowers under the program. Demand for cancellations has increased in recent years as a result of the Higher Education Amendments of 1992 and 1998, which greatly expanded eligibility for loan cancellations.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information including: goals; indicators; targets; and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this and other programs supporting the performance goals and objectives.

Because the SFA programs are designed to work together, several performance indicators and strategies that apply to all of the SFA programs are discussed in the Summary of Request and are not repeated here.

Other performance indicators and strategies for this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

Performance goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially-sound, and customer-responsive manner.

No measurable objectives or indicators have been developed for this goal that are specific for this program. Instead, measurable objectives and indicators that apply to all of the SFA programs are included in the Summary of Request.

The Perkins loan default rate is not included as an indicator in the FY 2001 Annual Plan; however, reducing the Perkins loan default rate is important to OSFA. OSFA will continue to monitor, as well as develop initiatives that will lead to its reduction. For example, there are preliminary plans to develop a school brochure providing suggested ways of reducing Perkins loan defaults. It was not selected as a strategic priority for SFA because the devotion of resources to the reduction of the FFEL and Direct Loan Programs offer substantial benefits towards reducing the medium-and long-range unit costs, and must be monitored closely.

STUDENT FINANCIAL ASSISTANCE

Federal Perkins loans

PROGRAM OUTPUT MEASURES

(\$000s)	<u>1999</u>	<u>2000</u>	<u>2001</u>
Recipients	698,000	698,000	676,000
Loan volume ¹ (\$000s)	\$1,058,000	\$1,058,000	\$1,058,000
Average loan (whole \$)	\$1,516	\$1,516	\$1,564

¹ Loan volume includes budget authority and institutional matching funds minus administrative costs.

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

(Higher Education Act, Title IV, Part A, Subpart 4)

FY 2001 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

<u>2000¹</u>	<u>2001¹</u>	<u>Change</u>
\$40,000	\$40,000	0

¹ Includes \$10 million for Special LEAP pursuant to HEA section 415A(b)(2) which states that when the appropriation for LEAP exceeds \$30 million the excess shall be reserved to carry out Special LEAP authorized under section 415E.

PROGRAM DESCRIPTION

The Leveraging Educational Assistance Partnership (LEAP) program encourages State investment in need-based grant and work-study assistance to eligible postsecondary students. Federal contributions leverage a minimum dollar-for-dollar match from the State. Federally-supported grants and job earnings are limited to \$5,000 per award year for full-time students. Until FY 1999, the program was known as the State Student Incentive Grant (SSIG) program. Federal LEAP appropriations in excess of \$30 million are reserved for a separate program Special Leveraging Educational Assistance Partnership (Special LEAP).

LEAP is a two-year funded program. Funds become available for obligation on October 1 of the fiscal year in which they are appropriated and remain available through September 30 of the following year. Funds from the 2001 fiscal year appropriation will be used for the 2001-2002 award year, which runs from July 1, 2001 through June 30, 2002.

State participation: By law, each State's allocation is based on its relative share of the total national population of students eligible to participate in the program, except that no State is to receive less than it received in 1979, when the appropriation was \$76.75 million. If LEAP appropriations are below this level, each State is allocated an amount proportional to the amount of funds it received in 1979. If a State does not use all of its allocation, the excess funds are distributed to other States in the same proportion as the original distribution. "Eligible students" are defined for the purposes of the State allocation formula as those who attend institutions eligible to participate in a State's program. If a State's allocation is based in part on the financial need demonstrated by students who are independent students or attending the institution less than full-time, a "reasonable proportion" of the State's allocation must be made available to such students.

State matching and maintenance of effort requirement: States must, at a minimum, match LEAP grants dollar-for-dollar with State funds provided through direct State appropriations for this purpose. They must administer the program under a single State agency agreement and

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

meet maintenance-of-effort criteria (based on the average annual aggregate expenditures for the preceding three fiscal years or the average annual expenditure per full-time equivalent student for those years). States may use up to 20 percent of their LEAP allocation in support of campus-based work-learning jobs that provide community services.

Special LEAP: When the appropriation for LEAP exceeds \$30 million in any fiscal year, the excess is reserved for Special LEAP. Funds under Special LEAP are allocated to States under the same statutory formula as LEAP grants. States must meet certain maintenance of effort criteria (based on the aggregate expenditures per student or aggregate by the State, from non-Federal sources in the second preceding fiscal year) and match the Federal funds on a two-to-one basis, ensuring that the Federal share of the cost of authorized activities is not more than 33 ¹/₃ percent. Funds awarded to a State under Special LEAP may be used to pay the Federal share of the cost of the following authorized activities:

- Increasing the dollar amount for grants awarded under LEAP;
- Carrying out a transition program from secondary schools to postsecondary education for eligible needy students;
- Carrying out a financial aid program for needy students who wish to pursue careers in information technology or other fields of study determined to be critical to the State's workforce needs;
- Funding community service work-study positions for needy students;
- Creating a scholarship program for needy students who wish to enter teaching;
- Creating a scholarship program for needy students who wish to pursue a program of study leading to a degree in mathematics, computer science, or engineering;
- Carrying out early intervention, mentoring, and career education programs for needy students; or
- Awarding merit or academic scholarships to needy students.

Institutional participation: All public or private nonprofit institutions of higher education in a State are eligible to participate in the LEAP program unless specifically excluded by the State's constitution or by a State law enacted before October 1, 1978.

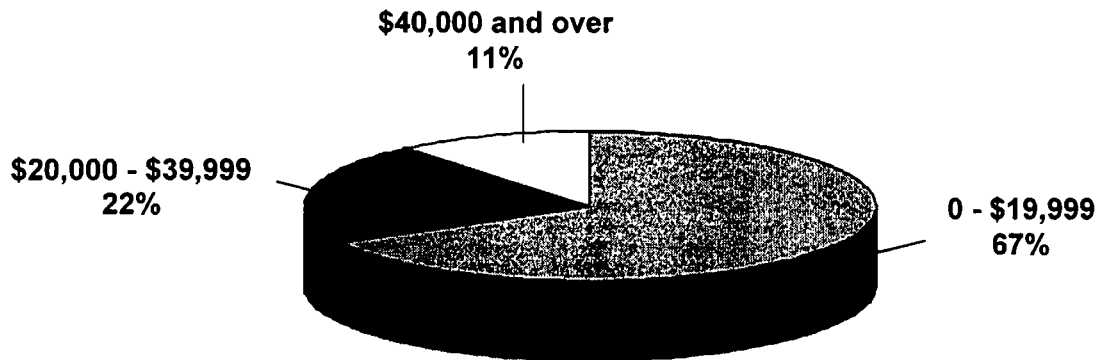
Student participation: Students must demonstrate need under a need analysis system established by the State and approved by the Secretary in order to qualify for a LEAP grant or work-learning job. States have broad discretion in establishing other student eligibility requirements. All States make awards to full-time students, and 25 States also make awards to part-time students. Ten States serve graduate as well as undergraduate students.

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

Distribution of LEAP Funds by Income Level:

As the chart below illustrates, LEAP-supported grant programs serve the neediest students. Over half of Federal funds leverage financing of awards for students with a family income under \$20,000 a year. LEAP funding utilized for work-study programs finance almost 5,000 community service work-study positions. The chart shows the percentage of total LEAP recipients by income level in 1997-1998.



Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996	\$31,375
1997	50,000
1998	25,000
1999	25,000
2000	40,000 ¹

Note: Prior to 1999, the program was authorized as the State Student Incentive Grant (SSIG) program.

¹ Includes \$10 million for Special LEAP pursuant to HEA section 415A(b)(2) which states that when the appropriation for LEAP exceeds \$30 million the excess shall be reserved to carry out Special LEAP authorized under section 415E.

FY 2001 BUDGET REQUEST

The Administration proposes \$40 million for the LEAP program, the same as the FY 2000 appropriation, to support the participation of low-income students in postsecondary education through State need-based grant and work-study assistance. The proposed level includes \$10 million (above the \$30 million ceiling for LEAP) to support the activities authorized under Special LEAP, which provide additional flexibility to States in meeting the needs of their students.

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

When the program was first authorized as the SSIG program in 1972, 28 States had undergraduate need-based grant programs. Now all States have established need-based student grant programs.

Research shows that grant-assisted students persist in postsecondary education at higher rates than students who receive loans, and larger grants have a more positive effect than smaller grants. Retention and expansion of existing State grant programs is necessary to help financially needy students pay for and stay in college.

LEAP is a primary means of securing additional State funding of need-based grant programs. Due to the maintenance of effort requirements, LEAP generates significant State spending for need-based student grants. Including maintenance of effort requirements and overmatching, in total, States provided nearly \$17 for each \$1 in Federal funds in 1997-98, the latest year for which data are available.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information including: goals; indicators; targets; and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this and other programs supporting the performance goals and objectives.

Because the SFA programs are designed to work together, several performance indicators and strategies that apply to all of the SFA programs are discussed in the Summary of Request and are not repeated here.

Other performance indicators and strategies for this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

Performance goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially-sound, and customer-responsive manner.

No measurable objectives or indicators that are specific for this program have been developed for this goal. Instead, measurable objectives and indicators that apply to all of the SFA programs are included in the Summary of Request.

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

PROGRAM OUTPUT MEASURES

(\$000s)	<u>1999</u>	<u>2000</u> ¹	<u>2001</u> ¹
Recipients	83,000	120,000	120,000
Aid available to students ²	\$50,000	\$90,000	\$90,000
Maximum grant ³ (whole \$)	\$5,000	\$5,000	\$5,000
Average grant (whole \$)	\$600	\$750	\$750

¹ The effects of the allowable activities under Special LEAP are difficult to gauge at this time. Estimate assumes additional funds are used for larger grant awards.

² Reflects the program's statutory dollar-for-dollar State matching requirement for Federal funding up to \$30 million, and a 2-to-1 match for Federal funding in excess of \$30 million. Discretionary State contributions above the required match, which are not reflected, significantly increase the number of grant recipients, the amount of available aid, and the average award.

³ The maximum award is comprised of a \$2,500 maximum Federal contribution and \$2,500 State matching contribution.

STUDENT FINANCIAL ASSISTANCE

Leveraging educational assistance partnership

Leveraging Educational Assistance Partnership			
State or Outlying Area	1999 Approp. for 1999-2000	2000 Estimate for 2000-2001	2001 Request for 2001-2002
Alabama.....	\$378,359	\$594,825	\$594,825
Alaska.....	0	63,502	63,502
Arizona.....	434,850	680,560	680,560
Arkansas.....	161,606	252,919	252,919
California.....	3,924,417	6,141,894	6,141,894
Colorado.....	348,790	545,872	545,872
Connecticut.....	332,631	520,582	520,582
Delaware.....	68,145	106,650	106,650
Florida.....	799,426	1,251,137	1,251,137
Georgia.....	0	694,204	694,204
Hawaii.....	104,955	164,261	164,261
Idaho.....	85,537	133,869	133,869
Illinois.....	1,380,559	2,160,639	2,160,639
Indiana.....	510,815	799,450	799,450
Iowa.....	274,616	429,786	429,786
Kansas.....	283,038	442,968	442,968
Kentucky.....	311,959	488,230	488,230
Louisiana.....	363,681	569,177	569,177
Maine.....	91,551	143,281	143,281
Maryland.....	465,872	729,111	729,111
Massachusetts.....	821,285	1,285,348	1,285,348
Michigan.....	1,055,807	1,652,386	1,652,386
Minnesota.....	493,967	773,081	773,081
Mississippi.....	216,205	338,371	338,371
Missouri.....	504,795	790,028	790,028
Montana.....	70,419	110,208	110,208
Nebraska.....	183,132	286,610	286,610
Nevada.....	69,668	109,034	109,034
New Hampshire.....	89,039	139,350	139,350
New Jersey.....	669,890	1,048,408	1,048,408
New Mexico.....	129,664	202,931	202,931
New York.....	2,159,061	3,379,028	3,379,028
North Carolina.....	554,706	868,140	868,140
North Dakota.....	68,426	107,090	107,090
Ohio.....	1,012,678	1,584,888	1,584,888
Oklahoma.....	343,959	538,310	538,310
Oregon.....	328,096	513,485	513,485
Pennsylvania.....	1,122,555	1,756,850	1,756,850
Rhode Island.....	134,800	210,967	210,967
South Carolina.....	276,324	432,460	432,460
South Dakota.....	0	113,477	113,477
Tennessee.....	413,587	647,283	647,283
Texas.....	1,393,325	2,180,618	2,180,618
Utah.....	189,775	297,006	297,006
Vermont.....	64,152	100,400	100,400
Virginia.....	544,009	851,399	851,399
Washington.....	579,569	907,053	907,053
West Virginia.....	185,511	290,333	290,333
Wisconsin.....	532,692	833,688	833,688
Wyoming.....	42,843	67,051	67,051
District of Columbia.....	186,050	291,176	291,176
Puerto Rico.....	228,342	357,366	357,366
American Samoa.....	1,824	2,855	2,855
Northern Marianas.....	312	488	488
Guam.....	8,096	12,670	12,670
Virgin Islands.....	4,630	7,247	7,247
TOTAL.....	25,000,000	40,000,000	40,000,000

¹ Did not apply for funds.

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STUDENT LOANS OVERVIEW

Divider Title: _____

Department of Education
STUDENT LOANS OVERVIEW
Fiscal Year 2001 Budget Request

CONTENTS

	<u>Page</u>
Narrative Justification:	
Summary of Request	P-1
Loan Program Descriptions	P-3
Federal Family Education Loan Program	P-4
William D. Ford Direct Loan Program	P-4
Funding Characteristics	P-5
Loan Terms	P-5
Interest Rate from Higher Education Amendments of 1998	P-7
Lender-Specific Interest Rate Change	P-7
2001 Budget Request	P-11
Selected Program Performance Information	P-15
Program Outcomes	P-19
Program Costs	P-23
Program Output Measures	
(FFEL)	P-25
(Direct Loans)	P-26
Appendix of Major Student Loan Legislative Changes	P-27
Tables/Charts:	
Loan Maximums (FFEL and Direct Loan Programs)	P-6
Student Interest Rates (FFEL and Direct Loan Programs)	P-8
Recent Student Loan Volume History	P-9
Recent FFEL and Direct Loan Cost Factors	P-10
FY 2001 Proposed Student Loan Policies and Savings	P-13
Median Federal Student Loan Debt Burden	P-16
Distribution of Annual Student Loan Payments as a Percentage of Income	P-17
National Cohort Default Rate	P-18
Stafford Loan Borrower Distribution by Income	P-20
Percent of Borrowers and Dollars by Institution Type for FFEL and Direct Loans	P-21
Annual Loan Volume by 4-Yr, 2-Yr, and Proprietary School Sectors	P-22
Subsidized and Unsubsidized Stafford Loan Volume Growth	P-23

DEPARTMENT OF EDUCATION FISCAL YEAR 2001 BUDGET REQUEST

(in thousands of dollars)

Office, Account, Program and Activity	Category Code	1999 Appropriation	2000 Appropriation	2001 President's Request	President's Request Compared to FY 2000 Appropriation	
					Amount	Percent
Federal Family Education Loans (Liquidating)						
1. Family education loans (HEA IV-B):						
(a) New budget authority.....	M	0	0	0	0	---
(b) Program costs (non-add).....	M	(550,000) ¹	(691,237)	(599,901)	91,336	-13.2%
Total, FFEL (Liquidating).....		0	0	0	0	---
Outlays.....		0	0	0	0	---
Funds returned to Treasury (non-add).....		(1,163,000)	(706,100)	(615,772)	90,328	-12.8%
Federal Family Education Loan Program Account						
1. New loan subsidies (HEA IV-B):						
(a) New budget authority.....	M	3,485,386	3,731,216	2,760,302	(970,914)	-26.0%
(b) Reestimate of existing loans.....	M	(153,134)	776,001	0	(776,001)	-100.0%
Subtotal.....		3,332,252	4,507,217	2,760,302	(1,746,915)	-38.8%
2. Federal administration (FCRA section 505(e)).....	D	47,276 ²	48,000	48,000	0	0.0%
Total, FFEL Program.....		3,379,528	4,555,217	2,808,302	(1,746,915)	-38.3%
Total, discretionary.....	D	47,276	48,000	48,000	0	0.0%
Total, mandatory.....	M	3,332,252	4,507,217	2,760,302	(1,746,915)	-38.8%
Outlays, Total.....		2,805,488	4,030,748	2,576,027	(1,454,721)	-36.1%
Outlays, discretionary.....		52,248	47,198	49,921	2,723	5.8%
Outlays, mandatory.....		2,753,240	3,983,550	2,526,106	(1,457,444)	-36.6%

¹ Reflects a reduction of \$1,808 thousand for the Department of Education's share of a rescission of \$270 million, pursuant to Sections 102 and 202 of the Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Act of 1999. The rescission applies to nondefense funds available to Executive Branch agencies for administrative and travel expenses.

² Includes \$794 thousand transferred in fiscal year 1999 from the Y2K Contingent Fund for expenses related to year 2000 conversion of Federal information systems.

NOTE: When mandatory credit programs experience a program-wide negative subsidy, no new budget authority is required. Program costs, which reflect net cash flows into the Department, are shown for information purposes.

DEPARTMENT OF EDUCATION FISCAL YEAR 2001 BUDGET REQUEST

(in thousands of dollars)

Office, Account, Program and Activity	Category Code	1999 Appropriation	2000 Appropriation	2001 President's Request	President's Request Compared to FY 2000 Appropriation	
					Amount	Percent
Federal Direct Student Loan Program Account						
1. New loan subsidies (HEA IV-B):						
(a) New budget authority.....	M	0	0	0	0	---
(b) Program costs (non-add).....	M	(378,211)	(1,312,755)	(516,191)	796,564	-60.7%
2. Reestimate of existing loans (non-add).....	M	(360,880)	(2,442,286)	0	2,442,286	-100.0%
Subtotal, new budget authority		0	0	0	0	---
Subtotal, program costs (non-add).....		(739,091)	(3,755,041)	(516,191)	3,238,850	-86.3%
3. Federal administration (HEA IV-D section 458):						
(a) Federal administration.....	M	617,591 ¹	735,000	770,000	35,000	4.8%
(b) Payments for services to guaranty agencies (non-add)	M	177,000	180,000	170,000	(10,000)	-5.6%
Subtotal.....		617,591	735,000	770,000	35,000	4.8%
Total, new budget authority.....		617,591	735,000	770,000	35,000	4.8%
Total, program costs (non-add)...		(121,500)	(3,020,041)	253,809	3,273,850	-108.4%
Outlays, Total.....		626,794	681,353	721,944	40,591	6.0%
Outlays, Federal admin.--mandatory.		543,409	681,353	721,944	40,591	6.0%
Outlays, loan subsidies--mandatory.		83,385	0	0	0	---
Funds returned to Treasury (non-add).....		(636,793)	(3,431,659)	(607,139)	2,824,520	-82.3%
TOTAL, OSFAP.....		13,345,119	14,664,934	13,836,302	(828,632)	-5.7%
Total, discretionary.....	D	9,395,276	9,422,717	10,306,000	883,283	9.4%
Total, mandatory.....	M	3,949,843	5,242,217	3,530,302	(1,711,915)	-32.7%

¹ Includes \$591 thousand transferred in fiscal year 1999 from the Y2K Contingent Emergency Fund for expenses related to year 2000 conversion of Federal information systems.

NOTE: When mandatory credit programs experience a program-wide negative subsidy, no new budget authority is required. Program costs, which reflect net cash flows into the Department, are shown for information purposes.

STUDENT LOANS OVERVIEW

Federal Family Education Loan Program (FFEL)

(Higher Education Act of 1965, Title IV, Part B)

William D. Ford Federal Direct Loan Program (Direct Loans)

(Higher Education Act of 1965, Title IV, Part D)

FY 2000 Authorization (\$000s): Indefinite

Budget Authority (\$000s):

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Loan Subsidies:			
FFEL ¹	\$4,507,217	\$2,760,302	-\$1,746,915
Direct Loans ^{1,2}	0	0	0
DL Subsidy Cost (non-add)	-3,755,041	-516,191	+3,238,850

¹ Federal administration funds requested under the FFEL and Direct Loan Accounts are discussed in the Federal Administration of Postsecondary Education Programs. FY 2001 FFEL amount includes non-contractual modification of -\$590 million.

² Direct Loan BA is "0" due to negative subsidy cost requiring no new BA. Subsidy cost reflects negative subsidy.

PROGRAM DESCRIPTION

The Federal Family Education Loan (FFEL) program and William D. Ford Federal Direct Loan (Direct Loan) program provide students and their families with federally-sponsored loans to help meet increasing postsecondary education costs. In FY 1999, these two programs alone accounted for an estimated \$30.1 billion in new loans, representing 57 percent of all Federal postsecondary student financial assistance. When Consolidation loan volume is considered, the overall loan volume in FY 1999 totals some \$42.8 billion.

Both the FFEL and Direct Loan programs meet an important goal in the Department's Strategic Plan by helping ensure student access to and completion of high-quality postsecondary education. In past years new FFEL and Direct Loan volume has expanded tremendously, increasing from some \$16 billion in FY 1993 to an estimated \$30.1 billion in FY 1999, a 90 percent increase. Similarly, the number of loans taken out has also expanded greatly from 5.2 million in FY 1993 to about 8.2 million in FY 1999, a 56 percent increase, while the number of borrowers continues to grow, increasing from 3.6 million in FY 1993 to about 4.9 million in FY 1999, a 37 percent increase. Nevertheless, there are some signs that demand recently is slackening as loan volume began to level off in 1998.

The operation of both the FFEL and Direct Loan programs over the past five years has fostered strong program competition between the two programs and among FFEL lenders, resulting in improved customer service to students and institutions, along with a greater emphasis on borrower satisfaction. FFEL improvements, spurred by Direct Loan innovations, include simpler

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

and faster loan processing, new income-related repayment options, lower fees on loan origination, and improved loan counseling.

Both Direct Loan and FFEL programs are housed under the Office of Student Financial Assistance (OSFA) which operates as a congressionally-mandated performance based organization (PBO). Key objectives of OSFA are to improve customer satisfaction, reduce the overall cost of delivering student aid, and ensure employee satisfaction. .

In an effort to improve both loan delivery systems, a number of changes to these programs were enacted as part of the reauthorization of the Higher Education Act of 1965 (HEA). A summary of those legislative changes included in the Higher Education Amendments of 1998 is found in the attached Appendix. This Appendix also reflects selected regulations that were a product of negotiated rulemaking. Those rules were published first as Notices of Proposed Rulemaking (NPRMs) in June and August, 1999, and as final rules by November 1, 1999. In many cases, these regulations provide the "nuts and bolts" of how the programs operate.

Federal Family Education Loan Program

The FFEL program provides federally guaranteed loans for postsecondary education, and continues to provide more student aid funding than any other student financial assistance program. Through this program, the Federal Government helps millions of students and their parents finance attendance at over 4,000 participating universities, colleges, and vocational schools by supporting the availability of loans from over 4,100 participating banks and other eligible lenders. FFEL borrowers may choose from among four repayment plans—and change once annually—including standard, graduated, income-sensitive, and extended. All but extended have 10-year repayment terms. New borrowers with more than \$30,000 in student loans may repay up to 25 years under the extended plan. Under the FFEL system, 36 State and private nonprofit guaranty agencies act as intermediaries between lenders and the Federal Government's loan guaranty. These agencies, acting on behalf of the Federal Government, collect defaulted loans and work to prevent student loan defaults. From its inception in 1966 through 1999, the FFEL program has delivered over \$260 billion in new loans. The total amount of FFEL loans outstanding at the end of FY 1999 was about \$148.6 billion. New FFEL loan volume was \$20.1 billion in FY 1999 and is projected to grow to \$22.2 billion in FY 2001.

William D. Ford Direct Loan Program

The Direct Loan program, authorized by the Student Loan Reform Act (SLRA) of 1993, enables student and parent borrowers to obtain and repay loans more directly than the FFEL program allows. Under Direct Loans, the Federal Government provides loan capital directly to postsecondary institutions to originate loans, thereby avoiding the cost of insuring and subsidizing lenders and guaranty agencies. The Direct Loan program offers five flexible repayment options—which borrowers may switch at any time—including the Income Contingent Repayment (ICR) plan, where borrower repayments are based on their income and the amount borrowed and can extend for up to 25 years. Borrowers repay their loans directly to the Federal Government through private loan servicing firms contracted by the Department.

The Direct Loan origination fee was reduced from 4 to 3 percent on new loans, effective August 15, 1999. The Department also offers a quarter point reduction to Direct Loan student borrowers who repay via electronic funds transfer (i.e., direct deposit) and already effectively offers a 0.60 percentage point reduction for borrowers who take a Direct Consolidation loan while they are in-school or during the grace period prior to entering repayment.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

There are currently about 1,260 schools participating in the Direct Loan program. The program provided about \$10 billion in new loans in FY 1999, accounting for about one third of all new loan volume. From its inception in FY 1994 through FY 1999, the Direct Loan program has provided some \$43.6 billion in new loans. The total Direct Loan amount outstanding at the end of FY 1999 was about \$45.8 billion. New Direct Loan volume (excluding Consolidations) is expected to grow to \$11.2 billion in FY 2001.

Funding Characteristics

Both FFEL and Direct Loans are mandatory programs. They are funded by indefinite budget authority (BA) and do not require an annual appropriation. The Federal loan subsidy, the portion of cost paid by the Federal Government, is calculated for each loan cohort based on the Credit Reform Act of 1990 and reflects the net present value of the Federal portion of all non-discretionary administrative costs associated with each loan. Subsidy costs for both FFEL and Direct Loans reflect the lifetime costs associated with each loan cohort. Budget estimates for Direct Loans currently show a negative subsidy cost, generally indicating that the present value of loan repayments, even accounting for defaults, exceeds the cost of Federal borrowing. In other words, when inflows are greater than outflows, the subsidy cost is negative.

Both FFEL and Direct Loans have various administrative expenses, some of which are funded through subsidy and others through administrative funds. The FFEL Program Account contains a discretionary Federal administrative cost sub-account, that requires an annual appropriation. There is also a mandatory, definite appropriation in Section 458 of the HEA that funds the majority of administrative costs in the FFEL program and all of the non-subsidy administrative costs in Direct Loans, including loan servicing, student aid systems, and account maintenance fee payments to guaranty agencies. A complete explanation of the administration funds for student aid programs can be found in the section titled Federal Administration of Postsecondary Education Programs.

Loan Terms

Both the guaranteed and Direct Loan programs share virtually identical terms and conditions. Both FFEL and Direct Loans provide the following types of loans:

- Stafford Loans are subsidized, low interest, variable rate loans based on financial need. The Federal Government pays the interest while the student is in school and during grace and deferment periods. The interest rate on Stafford loans is adjusted annually, but may not exceed 8.25 percent.
- Unsubsidized Stafford Loans are low interest, variable rate loans that are available to student borrowers, regardless of financial need. The Federal Government does not pay the interest that accrues on Unsubsidized Stafford Loans. The interest rate is adjusted annually, but may not exceed 8.25 percent.
- PLUS Loans are available to parents of dependent undergraduate students. The Federal Government does not pay the interest that accrues on PLUS Loans. The interest rate is adjusted annually, but may not exceed 9 percent.
- Consolidation Loans are a form of refinancing that allow borrowers with existing student loans to combine their obligations and possibly extend their repayment schedules based on their total student loan amounts outstanding. The rate for both FFEL and Direct Consolidation Loans is based on the weighted average of loans consolidated rounded up to the nearest 1/8 of 1 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

DIRECT LOAN AND FFEL PROGRAM LOAN MAXIMUMS		
	ANNUAL LIMITS	
DEPENDENT UNDERGRADUATES	Subsidized Stafford	Total (Subsidized & Unsubsidized Stafford)
First Year Student	\$2,625	\$2,625
Second Year Student	\$3,500	\$3,500
Third Year+ Student	\$5,500	\$5,500
INDEPENDENT UNDERGRADUATES ^{1,2}		
First Year Student	\$2,625	\$6,625
Second Year Student	\$3,500	\$7,500
Third Year+ Student	\$5,500	\$10,500
GRADUATE STUDENTS ²	\$8,500	\$18,500
	AGGREGATE LIMITS	
DEPENDENT UNDERGRADUATES	\$23,000	\$23,000
INDEPENDENT UNDERGRADUATES ^{1,2}	\$23,000	\$46,000
GRADUATE STUDENTS ²	\$65,500	\$138,500

¹ And dependents whose parents are unable to borrow under the PLUS program.

² Certain health professions students (independent undergraduates, dependent undergraduates whose parents are unable to borrow under the PLUS program, and graduate students) are eligible to receive increased annual and aggregate Unsubsidized Stafford loan limits due to the phase-out of the HEAL Program. For these students, the annual unsubsidized loan limit was increased to the student's cost of attendance minus other aid. The aggregate unsubsidized loan limit is \$189,125, less the aggregate amount of any subsidized loans made to the student.

Note: Students whose financial need qualifies them for only a portion of the maximum Subsidized Stafford Loan limit may borrow up to the remaining loan amount available under the Unsubsidized Stafford Loan program, limited to cost of attendance minus other aid. For example, a dependent first-year student who qualifies for a \$2,000 Subsidized Stafford Loan would be eligible for an additional \$625 in Unsubsidized Stafford up to the total of \$2,625. For students borrowing under both programs, the Subsidized Stafford and Unsubsidized Stafford Loan limits displayed above apply.

For independent undergraduate students (or dependent undergraduate students whose parents cannot borrow under the PLUS program) and for graduate and professional students, the maximum amount a student can borrow during any academic year is: the combined Stafford and Unsubsidized Stafford Loan limit shown under the column entitled, "Total (Subsidized and Unsubsidized)." For example, a second-year independent student could borrow up to \$3,500 under Subsidized Stafford Loans and up to an additional \$4,000 in Unsubsidized Loans for a total of \$7,500.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Interest Rate from HEA of 1998 Affecting Students and Lenders

The HEA of 1998 provides that the interest rate basis for Stafford and Unsubsidized Stafford Loans made on or after October 1, 1998 is reduced by 0.8 of 1 percentage point in keeping with a scheduled rate reduction established in the 1993 Student Loan Reform Act.

For new loans during this period, the interest rate is based on the 91-day Treasury-bill (T-bill) rate plus 2.3 percent while the loan is in repayment, and plus 1.7 percent during in-school, grace or deferment status. FFEL lenders, however, will be assured a higher interest rate, based on T-bill plus 2.8 percent during repayment status and T-bill plus 2.2 percent during in-school, grace or deferment status for loans disbursed prior to January 1, 2000. The difference or spread between the student interest rate and the lender's interest rate is referred to as "special allowance," which the Federal Government pays to lenders as an incentive for participation in the loan programs. The July 1, 1999 through June 30, 2000 current student borrower interest rate is 6.32 percent during an in-school period and 6.92 percent when the loan enters repayment.

The 1998 Amendments changed the PLUS interest rate basis to the 91-day T-bill plus 3.1 percent. This results normally in a benefit to the PLUS borrower, since the 91-day instrument is typically lower than the 52-week instrument previously used. For the academic year 1999-2000, the PLUS interest rate for loans first disbursed on or after October 1, 1998 is 7.72 percent.

Lender-Specific Interest Rate Change

For new loans disbursed on or after January 1, 2000 and prior to July 1, 2003, FFEL lenders are guaranteed interest based on a 3-month "commercial paper" rate. The actual formula uses the average of bond equivalent rates for 3-month commercial paper during a quarter plus 2.34 percent for loans in repayment. The formula substitutes 1.74 percent for loans during in-school, grace, or deferment periods. Basically, the Federal Government will pay lenders the difference in yields between the student interest rate and the commercial paper interest rate as special allowance.

A PLUS Loan would qualify for lender special allowance only if the interest rate exceeds the PLUS cap of 9 percent and a Consolidation loan would only qualify for special allowance if the rate exceeds the cap of 8.25 percent. The special allowance formula uses 2.64 percent added to the commercial paper index for both PLUS and Consolidation Loans. This change in the HEA, to a commercial paper rate index, was authorized as an amendment to the Ticket to Work and Work Incentives Improvement Act of 1999.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

STUDENT INTEREST RATES BY ACADEMIC YEAR AND PROGRAM COMPONENT

Type of Loan	Loans made on or after July 1, 1994	Loans made on or after July 1, 1995	Loans made on or after Oct. 1, 1998 ²
Stafford and Unsubsidized Stafford	91-day Treasury bill rate +3.1%, not to exceed 8.25%	91-day Treasury bill rate +2.5%, during in-school, grace, or deferment periods, but T-bill +3.1% during repayment; capped at 8.25%	91-day Treasury bill rate +1.7%, during in-school, grace, or deferment periods, but T-bill +2.3% during repayment; not to exceed 8.25%
PLUS	52-week Treasury bill rate +3.1%, not to exceed 9%	52-week Treasury bill rate +3.1%, not to exceed 9%	91-day Treasury bill rate +3.1%, not to exceed 9%
FFEL Consolidation Loans¹	weighted average of the interest rates on the loans consolidated, rounded up to the nearest whole percent	weighted average of the interest rates on the loans consolidated, rounded up to the nearest whole percent	weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of one percent, not to exceed 8.25%.
Direct Consolidation Loans-- Stafford and Unsubsidized Stafford	91-day Treasury bill rate +3.1%, not to exceed 8.25%	91-day Treasury bill rate +2.5%, during in-school, grace, or deferment periods, but T-bill + 3.1% during repayment; capped at 8.25%	91-day T-bill rate +2.3%, not to exceed 8.25% for applications received 10-1-98 through 1-31-99. Weighted avg. basis, as above, thereafter.
Direct PLUS Consolidation	52-week Treasury bill rate +3.1%, not to exceed 9%	52-week Treasury bill rate +3.1%, not to exceed 9%	Same as Direct Consol. above for Stafford and Unsubsidized. Stafford

¹ The Emergency Student Loan Consolidation Act of 1997, which was included in the Department's FY 1998 appropriations act, temporarily changed a number of laws affecting Consolidation Loans. Under this act, which expired September 30, 1998, the interest rate for FFEL Consolidation Loans made on or after November 13, 1997 was calculated based on the Treasury bill calculation--91 Day T-bill + 3.1%-- not the weighted average of the interest rates on the loans consolidated.

² The Transportation Equity Act for the 21st Century included amendments to the HEA lowering interest rates for new Stafford, Unsubsidized Stafford, and PLUS loans made on or after July 1, 1998 and before October 1, 1998. These same rates were extended with passage of the HEA of 1998 up to July 1, 2003 and are reflected in the chart above, under "Loans made on or after Oct. 1, 1998."

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

RECENT STUDENT LOAN VOLUME HISTORY

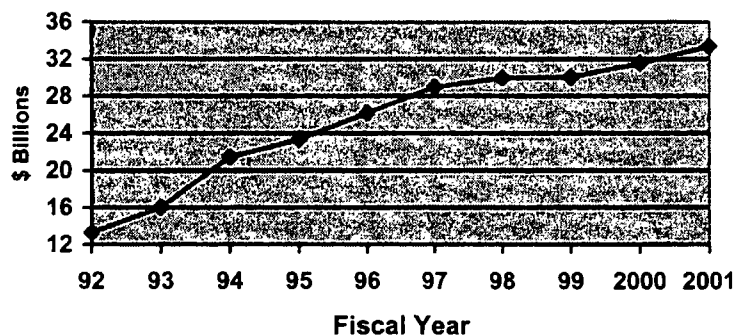
This table, showing fiscal years 1995-2001, reveals the increasing demand for student loans.

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
New Loan Volume (\$M)							
FFEL	\$18,726	\$17,756	\$19,206	\$19,917	\$20,107	\$20,959	\$22,157
Direct Loans	<u>\$4,612</u>	<u>\$8,427</u>	<u>\$9,752</u>	<u>\$10,065</u>	<u>\$9,953</u>	<u>\$10,605</u>	<u>\$11,211</u>
Total	\$23,338	\$26,183	\$28,958	\$29,982	\$30,060	\$31,564	\$33,368
Number of loans (000s)							
FFEL	5,497	4,991	5,270	5,388	5,354	5,667	5,899
Direct Loans	<u>1,209</u>	<u>2,499</u>	<u>2,858</u>	<u>2,928</u>	<u>2,891</u>	<u>2,872</u>	<u>2,990</u>
Total	6,707	7,490	8,128	8,315	8,245	8,539	8,890

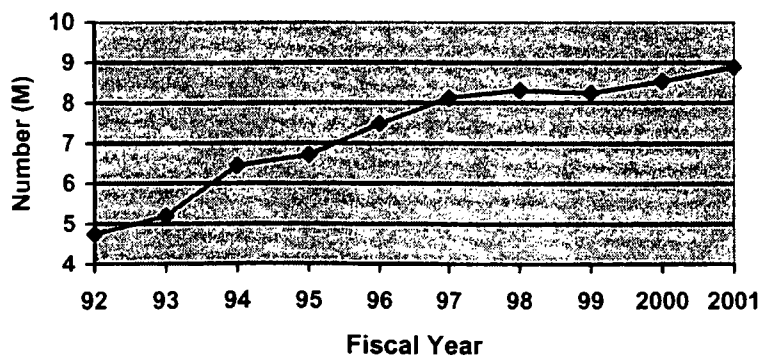
Notes: Loan volume and number of loans reflect net commitments, excluding consolidation loans. Loan volume decreases in the FFEL program in FY 1996 due to the phase-in of Direct Loans. Totals may not sum due to rounding.

The following graphs show new loan volume and number of loans made over a 10- year period.

Total New Student Loan Volume



Total Number of New Loans



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

RECENT FFEL AND DIRECT LOAN COST FACTORS

	(\$ in millions)						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Interest Benefit Costs							
FFEL Total	\$2,543	\$2,522	\$2,219	\$3,537	\$3,658	\$1,848	\$1,968
Special Allowance Costs							
FFEL Total	\$656	\$380	\$217	\$338	\$858	\$889	\$605
Default Costs ¹							
FFEL	\$2,362	\$2,529	\$2,828	\$2,139	\$3,639	\$3,474	\$3,680
Direct Loans	\$<1	\$2	\$98	\$207	\$642	\$1,366	\$1,680
Total	\$2,362	\$2,531	\$2,926	\$2,346	\$4,281	\$4,840	\$5,360
Default Collections ¹							
FFEL	\$1,896	\$2,120	\$1,658	\$1,788	\$4,328	\$2,036	\$2,185
Direct Loans	\$<1	\$< 1	\$1	\$14	\$64	\$179	\$303
Total	\$1,896	\$2,120	\$1,659	\$1,802	\$4,392	\$2,215	\$2,488
Total Program Costs (subsidies & administration)							
FFEL ²	\$4,561	\$4,281	\$4,082	\$2,885	\$2,830	\$3,864	\$2,208 ⁴
Direct Loans ³	\$884	\$670	\$744	\$917	-\$122	-\$3,020	\$254
Total	\$5,446	\$4,951	\$4,826	\$3,802	\$2,708	\$844	\$2,462

¹ Data on default costs and collections reflect cash outflows and inflows by fiscal year and are not cohort-specific. Default collections are net of contract collection costs and guaranty agency retention. FY 1999 default costs and collections include one-time adjustments for reconciliation with NSLDS data.

² Includes Liquidating and Program Accounts (with reestimates) and discretionary Federal administration.

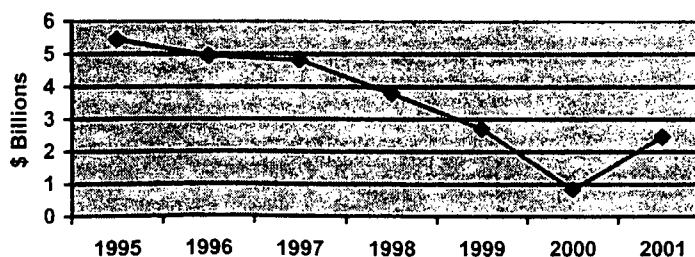
³ Reflects Federal administration amounts from Section 458 of the HEA and subsidy costs (including reestimates). In FY 2000, a substantial downward reestimate due to projected higher repayment interest rates lowers DL cost.

⁴ Includes non-contractual modifications of -\$590 million for guaranty agency reduced retention policies affecting prior cohorts.

Totals may not sum due to rounding.

The following graph reflects the total program costs of FFEL and Direct Loans as shown above.

Total FFEL and Direct Loan Costs



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Subsidy costs for the past 5 fiscal years were as follows: (\$000s)

	<u>FFEL</u>	<u>Direct Loans</u>
1996	\$3,098,085	\$234,144
1997	3,290,399	253,032
1998	2,287,757	385,271
1999	3,332,252	-739,091
2000	4,507,217	-3,755,041

FY 2001 BUDGET REQUEST

The Administration's FY 2001 budget request estimates no new subsidy budget authority (i.e., zero BA) for Direct Loans in FY 2001, since net budget authority is negative. This means that under current assumptions, the Direct Loan program will return funds to Treasury in FY 2001, as net program inflows are expected to exceed outflows. Administrative funds under the Direct Loan account will amount to \$770 million in FY 2001. An expanded discussion of these funds is presented in Federal Administration of Postsecondary Education Programs. The 2001 budget request estimates \$2.8 billion in new budget authority for FFEL, of which almost all is for new loan subsidies, with \$48 million in new BA for Federal administration of the FFEL program.

In its 2001 budget, the Administration proposes a number of reforms to the FFEL program designed to ensure equitable financial returns among lenders, improve default recovery efficiency by cutting costs, and return excess Federal funds held on behalf of guaranty agencies to the Federal Treasury. This FY 2001 Budget Request includes a combination of student loan proposals that in total would save an estimated \$3.8 billion over 5 years with \$2.3 billion in outlay savings occurring in FY 2001. If enacted as part of the FY 2001 appropriations, the savings in FY 2001 would be available as an offset to fund discretionary activities.

Proposals Affecting Lenders

Under a new statutory formula for computing lender interest subsidy that is based on 3-month commercial paper rates, rather than 91-day T-bill rates (still used for students), lenders are expected to realize higher yields—by 11 basis points—than they would have under the old T-bill basis. While the new lender formula was designed to maintain parity with the prior basis, it currently results in additional Federal costs under FY 2001 budget economic projections. Therefore, the budget proposes to reduce lender interest subsidies by 11 basis points, saving an estimated \$326 million over 5 years of which \$83 million is saved in FY 2001.

By changing to a commercial paper index, lenders no longer need to hedge—insure against future interest rate changes. Consequently, lender costs (or risk expenses) are estimated to drop by about 20 basis points as the need for hedging is eliminated. The Department proposes to lower lender subsidies by another 20 basis points, resulting in 5-year savings of almost \$600 million—\$152 million in FY 2001—and together, these two policies would reestablish the cost-neutrality of the change to a commercial paper rate basis under current economic assumptions. In effect, the proposed lender special allowance formula (during repayment periods) would change from the current “3-month commercial paper plus 2.34 percent” to “3-month commercial paper plus 2.03 percent” accounting for the entire 31 basis point reduction from the two policies above. (During in-school, grace and deferment, the proposed basis would be 3-month commercial paper plus 1.43 percent.)

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

In addition, the budget request includes a proposal to eliminate certain special allowance interest subsidies to lenders who use tax-exempt financing and qualify for a 9 ½ percent interest rate floor. These lenders, with access to tax-exempt financing, have a lower cost of funds than competitors that do not have access to tax-exempt funds. As a result, a number of lenders using tax-exempt financing are not only incurring lower cost of funds, but are realizing special allowance subsidies as well. Under current law, many lenders using tax-exempt funds receive an interest rate floor of 9 ½ percent. To correct this inequitable advantage and restore greater balance, the Administration proposes that Stafford loans made with tax-exempt financing and subject to the 9 ½ percent interest rate floor, would be paid based on the 91-day T-bill plus 2.3 percent in repayment and plus 1.7 percent during an in-school period. (This policy leaves intact the 91-day T-bill index used in current law for tax-exempt loans, but lowers the overall rate basis.) Effectively, this would preclude paying special allowance except when rates exceeded the student cap of 8.25 percent. This is projected to save almost \$800 million over 5 years with \$94 million to be saved in FY 2001.

Proposals Affecting Guaranty Agencies

In order to maximize default collections and bring greater uniformity to the collections process, the Department proposes to reduce the percentage that guaranty agencies currently may retain from 24 percent to 18.5 percent—in line with what the Department pays on average to its private collection contractors. This policy is estimated to save \$336 million over 5 years with \$220 million saved in FY 2001. Also, for defaulted loans that are consolidated, the Department would reduce guaranty agency retention to 12 percent in line with the Department's costs and recognizing the lower cost associated with this type of collection. Savings are estimated at \$673 million over 5 years with \$428 million coming in FY 2001.

The HEA of 1998 expanded availability of voluntary flexible agreements to all guaranty agencies beginning in FY 2001. As more guaranty agencies choose to operate under these agreements that create greater regulatory flexibility, the need for guaranty agencies to hold Federal funds in reserve, diminishes. Therefore, the Department proposes to accelerate into FY 2001 the recall of \$194 million in Federal reserve funds already due to be returned to the Treasury in FY 2002 based on the Balanced Budget Act of 1997. Another \$165 million due to be recalled over 2 years in FY 2006 and FY 2007 according to the HEA of 1998, would also be shifted to FY 2001. Lastly, the Department proposes to recover excess reserves of \$950 million in FY 2001.

Regulatory Actions

This FY 2001 Budget for Federal Family Education Loans and Direct Loans reflects the legislative policies enacted by the Higher Education Amendments of 1998 and the regulations reached through consensus at negotiated rulemaking and subsequently published as Final Rules in the Federal Register this past summer, 1999. Many of the legislative and regulatory policies support improvements in both the FFEL and Direct Loan programs and many address Department strategic objectives related to ensuring aid is available and efficient. Some of these policies are highlighted below in relation to our strategic objectives. A more complete summary of recent changes is found in the attached Appendix.

The following student loan policy table shows the year-by-year savings attributable to the proposed FFEL policies in the 2001 budget request. The policies are presented according to lender and guaranty agency categories with estimated annual budget authority and outlay savings for each proposed policy.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2001 Proposed Student Loan Policies and Savings

(\$ in millions)

Status	Policy
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			Fiscal Year					
Category	Provision	Data	2001	2002	2003	2004	2005	TOTAL
Guaranty Agency	Reduce Default Retention to 12% for Consolidation Loans	BA	-449	-63	-67	-71	-74	-724
		Outlay	-428	-56	-59	-63	-66	-673
	Reduce Default Retention to 18.5% for Non-Consolidation Loans	BA	-229	-30	-32	-34	-34	-359
		Outlay	-220	-27	-28	-30	-31	-336
	Move Up Reserve Recall from 2006 and 2007 to 2001	BA	-165					-165
		Outlay	-165					-165
	Recall Excess GA Reserves in Federal Fund	BA	-950					-950
		Outlay	-950					-950
	Advance BBA* GA Reserves	BA	-194	194				0
		Outlay	-194	194				0
Guaranty Agency BA			-1,987	102	-99	-105	-108	-2,198
Guaranty Agency Outlay			-1,957	111	-88	-93	-97	-2,124
Lender	Reduce SAP** Guarantee by 11 bp for Commercial Paper Increase	BA	-144	-150	-74	0	0	-367
		Outlay	-83	-131	-89	-23	0	-326
	Reduce SAP by 20 bp for reduced risk expense	BA	-261	-274	-140	0	0	-674
		Outlay	-152	-239	-165	-43	0	-598
	Reduce Lender SAP to 0 bp for Tax Exempt Loans subject to 9.5% floor	BA	-161	-173	-191	-221	-235	-981
		Outlay	-94	-149	-164	-187	-204	-797
Lender BA			-566	-596	-405	-221	-235	-2,023
Lender Outlay			-329	-518	-417	-252	-204	-1,720
Total BA Savings			-2,553	-495	-503	-326	-344	-4,220
Total Outlay Savings			-2,286	-408	-505	-345	-301	-3,844

* Balanced Budget Agreement of 1997

** Special Allowance Payment

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Strategic Plan Objectives

Strategic Plan Objective 3.2: Postsecondary students receive the financial aid and support services they need to enroll in and complete a high quality educational program.

Helping families to meet the cost of college continues to be a major goal of all Federal student aid programs, and loans are the largest component of the Federal postsecondary aid system. According to the 1999 College Board "Trends in Student Aid" report, the average total cost of attendance at a 4-year private college increased from \$11,330 in 1988-89 to \$20,463 in 1998-99, representing an 81 percent rise. The average total cost at a 4-year public college rose about 75 percent from \$4,445 to \$7,769. However, during this 10-year period, median total family income increased only about 46 percent, moving from \$32,191 to \$46,958. In real terms, after adjusting for inflation, private 4-year college costs rose about 33 percent and public 4-year colleges about 29 percent, while median family incomes increased only 8 percent.

According to College Board estimates, the Federal Government, at almost \$46 billion, is the largest single source of direct postsecondary student financial assistance, accounting for approximately 72 percent of all Federal, State, and institutional aid in 1998-99. The FFEL and Direct Loan programs together constitute the largest components of Federal postsecondary aid, accounting for about 73 percent of all Federal aid dollars (excluding Consolidation Loans).

Students are using the Federal loan programs extensively to close the gap between family income and college costs. Based on the 1996 National Postsecondary Student Aid Study (NPSAS), about 54 percent of students in their fourth year of college reported borrowing a Federal loan at some point in their undergraduate studies. Borrowing trends for both Subsidized and Unsubsidized Stafford Loans reflect this dependence. Since FY 1994, Subsidized Stafford loan volume grew by 18 percent, while Unsubsidized Stafford volume grew by 123 percent.

During this same time, of course, student loan debt has been increasing. According to data from the 1996 NPSAS, the average cumulative Federal loan debt owed by undergraduate degree holders who received their degree in academic year 1995-96 was about \$12,400. This is some \$4,400, or 55 percent, higher than the \$8,000 average debt reported in the 1993 NPSAS.

Some loan program changes supporting this objective and built-in to the FY 2001 budget estimates include:

- Reducing Stafford borrower interest rates to 91-day T-bill rate plus 2.3 percent in repayment and 1.7 percent during in-school, grace, or deferment status.
- Reducing the frequency of interest capitalization in FFEL.
- Requiring FFEL lenders to offer extended repayment for high loan debt.
- Allowing lenders to offer lower origination fees to borrowers based on income.
- Reducing origination fees from 4 to 3 percent for Direct Loan student borrowers.

Strategic Objective 3.3: Postsecondary student aid delivery and program management is efficient, financially sound, and customer-responsive.

The FY 2001 budget proposals support this objective by restructuring the FFEL program to better serve borrowers and taxpayers. The mission of the PBO also directly focuses on this objective. Through increased emphasis on electronic processing and information technology,

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

the PBO seeks to improve customer service, ensure data integrity, and reduce operating expenses. Examples of key statutory operational changes that relate to this category include:

- Allowing Direct Loan borrowers to consolidate their loans into FFEL.
- Requiring the use of Free Application for Federal Student Aid (FAFSA) in FFEL.
- Exempting low-default institutions from delayed loan disbursement.
- Reducing guaranty agency collection retention percentage from 27 to 24 percent.
- Authorizing use of a master promissory note in both FFEL and Direct Loans.
- Requiring schools pay loan costs incurred during unsuccessful default rate appeals.

SELECTED PROGRAM PERFORMANCE INFORMATION

This section presents selected program performance information, including goals, indicators, targets, and where possible, an assessment of the progress made toward achieving program results. Achievement of targets is based on the cumulative effect of the resources provided in previous years and those requested in FY 2001 and future years, and the resources and efforts invested by those served by this program. The PBO uses some of these operational indicators to help it assess performance. Due to the annual process that OSFA uses to set targets, in most cases targets do not appear beyond the current year of operation, FY 2000. Other performance data related to this program are included in the Department's Annual Performance Plan and Annual Program Performance Report.

A previously reported loan-related indicator on eliminating material internal control weaknesses from the Department-wide audit has been expanded to include all student financial assistance (SFA) programs. Since that indicator no longer is loan-specific, it will not be shown in this section, but will be retained as a measure related to SFA programs in their entirety.

Performance goal: To help ensure access to high-quality postsecondary education by providing financial aid in the form of grants, loans, and work-study in an efficient, financially sound, and customer-responsive manner.

Objective: Ensure that low- and middle-income students will have the same access to postsecondary education that high-income students do.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
The median Federal debt burden (yearly scheduled payments as a percentage of annual income) of borrowers in their first full year of repayment will be less than 10%.				
<i>FFEL/DLbaseline:</i> Historical data indicates 7.4% in 1994; 7.5% in 1995; 7.9% in 1996 and 8.4% in 1997.	<10%	<10%	<10%	<10%

The data source for this indicator has changed resulting in a slightly revised measure. Previously the Department used the 1994 follow-up of the Baccalaureate and Beyond Study 1992-93 (B&B) survey data published in 1997. However, the B&B Study would be available only

STUDENT LOANS OVERVIEW

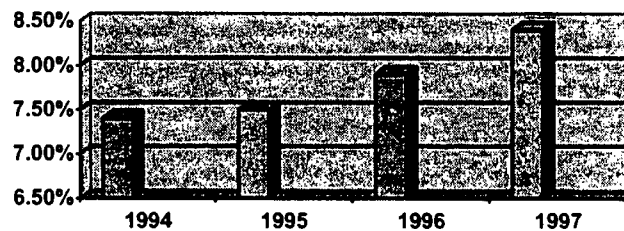
FFEL and Direct Loans

every 8 years and relies on self-reported income data which can be highly inaccurate. It also pertains only to college graduates.

In order to get more reliable data and updates more frequently, the Department is working with the Social Security Administration (SSA) to match borrower data in the National Student Loan Data System (NSLDS) with SSA earning records. The goal is to update annually. Ideally, the Department would like to get income data from the Internal Revenue Service (IRS). While this has not proven possible to date, we will continue to pursue this option.

As shown in the graph below, the noticeable rise in median Federal student loan debt burden over time, measured by annual repayment as a percent of annual income in the first full year of repayment, causes some concern. Nevertheless, loans play a major role in enabling students to afford college and so limiting their use would be counter-productive. Debt burden is largely not under direct control of the Federal Government. Many factors affecting student loan cumulative debt and debt burden such as school choice, personal finances, and career choice are primarily of the student's choosing. Therefore, this measure is heavily weighted by external factors.

Median Federal Student Loan Debt Burden in First Full Year of Repayment



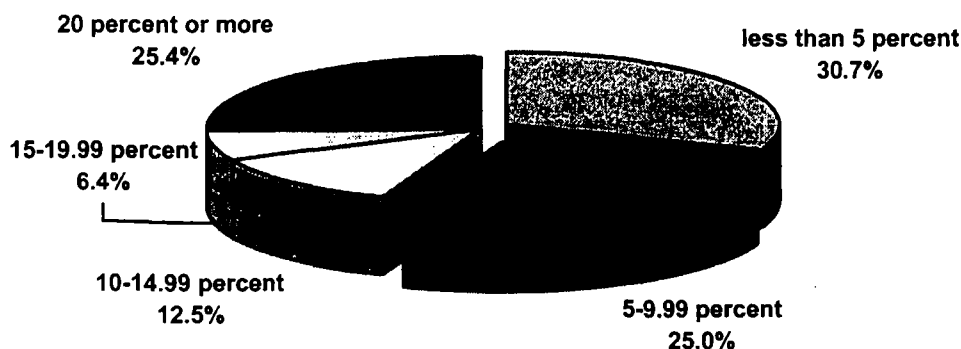
Nevertheless, the Department has developed policies intended to help minimize debt burden such as implementing and promoting lower interest rates, offering a variety of flexible repayment options, providing electronic exit counseling, and minimizing the frequency with which interest is capitalized. The Department will continue to look for ways to ensure borrowers do not become overly burdened with debt.

The following chart shows the distribution of student loan debt burden in 1997 for borrowers in their first full year of repayment who left school in 1996. The source data comes from a sample of NSLDS borrower files matched against SSA earnings records. About 31 percent of borrowers made scheduled payments that constituted less than 5 percent of their annual income and about 56 percent of borrowers had student loan debt burdens of under 10 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Distribution of Annual Student Loan Payments as a Percentage of Annual Income



The overall median Federal student loan debt burden of students in their first full year of repayment in 1997 was 8.4 percent. While these data indicate that over half the borrowers are paying less than 10 percent of their income to meet student loan debt, there is a sizable portion that are paying in excess of the 10 percent standard. The 10 percent benchmark is based on criteria that financial institutions consider as manageable debt burden for non-housing loans.

Objective: To increase customer satisfaction.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Process Loan Consolidations in 60 days or less. This is defined as the average number of days it takes to book a loan into the servicing system, once the application is received.				
<i>Direct Loans</i> baseline as of 1998, showed that processing completed consolidation applications was taking on average about 48 days, and for 1999, turnaround was approximately 51 days.	≤ 60 days (avg.)	≤ 60 days (avg.)	TBD	TBD
<i>FFEL</i> Not applicable, as this is a lender-controlled function.				

Direct Consolidation Loans experienced a heavy backlog in FY 1997 due in part to ineffective contractor processing methods and inefficient Department controls. A strong effort was made to relieve the backlog through revised processing procedures. This proved successful. Average processing time has improved substantially, from over 140 days in the summer of 1997 to below the industry standard of 60-90 days

Other previously cited measures related to borrower and institutional satisfaction have now been subsumed within a broader measure of customer satisfaction related to all of student financial

STUDENT LOANS OVERVIEW

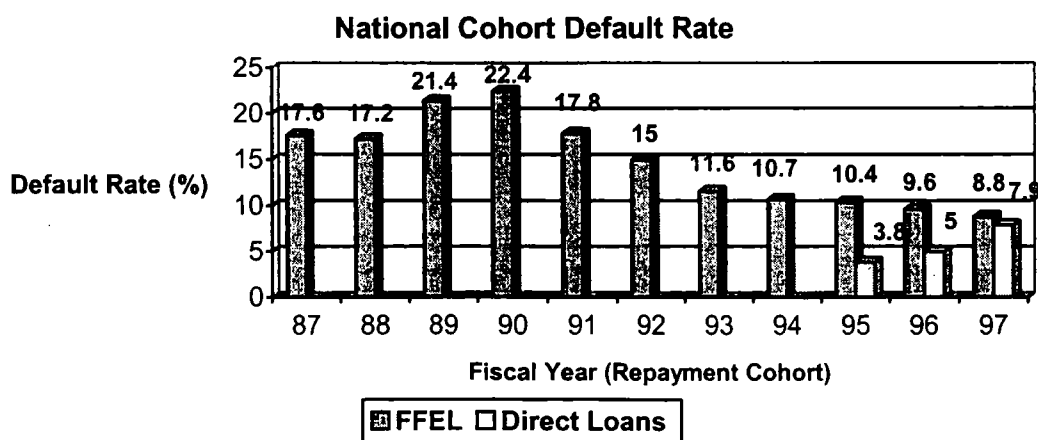
FFEL and Direct Loans

assistance. The PBO will be relying on a widely-used satisfaction index known as the American Customer Satisfaction Index (ACSI). (Over 170 private sector corporations use ACSI.) By expanding the measure to include the full range of student financial assistance programs and by using a comparable index to private industry, the PBO will gain valuable feedback of its own programs relative to industry standards.

Objective: Decrease Unit Costs

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Keep the Cohort Default Rate under 10 percent—defined by statute as the percentage of borrowers who enter repayment in a given year and default before the end of the following year. The 1995 cohort default rate baseline was 10.4 percent. (See graph below for rates since inception.)	<10%	<10%	TBD	TBD

One of the measures related to lowering loan costs is the cohort default rate. The National student loan cohort default rate—which primarily reflects FFEL and also includes Direct Loans as of FY 1995—has decreased substantially over the past six cohorts, as shown by the following graph. Since Direct Loans is such a new program, the FY 1995 cohort (entering repayment) represents the first year that a separate Direct Loan cohort default rate was computed. However, the first year Direct Loan rate may not be representative of the overall Direct Loan program, since about 80 percent of first year Direct Loan volume was borrowed at predominantly lower risk, 4-year public universities. The following graph depicts cohort default rates since they first took effect under the Omnibus Budget Reconciliation Act of 1990 (OBRA) to the most recent rate for 1997.



During the 1990's, there has been an absolute decrease in the number of borrowers attending proprietary schools, and a sharp drop in the percentage of these borrowers who default within the first 2 years of entering repayment. This trend significantly affects the overall cohort default

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

rate nationwide--driving it downward.

- From FY 1990 to FY 1997 the number of proprietary school borrowers entering repayment decreased from more than 1 million to about 335,000, a decrease of 67 percent, while the proprietary school cohort default rate also dropped from 41.2 percent to 15.4 percent.

While the cohort default rate provides a measure of borrower default behavior in the first 2 years after entering repayment, this measure does not reflect the "lifetime dollar default rates" that are used in budget formulation to project future default costs. The lifetime rates account for defaults over the entire loanlife and are roughly two or three times the national cohort rates. For example, the lifetime dollar default rate for proprietary school students borrowing Stafford Loans in FY 2001 is projected at 49.3 percent.

One measure, pertaining to default recoveries, known as "recovery rate", was not included in the final measures adopted by the OSFA. While default collections will continue to be tracked as an internal management tool, certain complexities of the recovery rate made it confusing and not that informative. Nevertheless, annual student loan default collections do appear in this justification under "Recent FFEL and Direct Loan Cost Factors" and in the FY 2001 Budget Appendix. Net default collections in FY 2001 are estimated at \$2.5 billion, more than doubling the \$1.05 billion collected in FY 1993.

PROGRAM OUTCOMES

The Department relies on a number of key research tools to analyze financial aid data related to Departmental goals. Some of these instruments include the National Postsecondary Student Aid Study (NPSAS, 1993, 1996), which is an extensive survey conducted every few years, that provides a substantial amount of descriptive data on both undergraduate and graduate college students; the Beginning Postsecondary Students Longitudinal Study (BPS:90/94) which tracks students who began postsecondary education in 1989-90 as to their status in the spring of 1994; and the Baccalaureate and Beyond (B&B) study, which surveyed students who received a bachelor's degree during 1992-93.

Several program outcomes related to enrollment and completion, as measured by these surveys are shown below.

Enrollment and Completion

- According to the BPS Descriptive Summary 90/94 findings, those students who borrowed student loans were more likely to have attained a degree (63 percent) than those who did not borrow (44 percent) and those who received grants were more likely to have attained a degree (59 percent) than those who did not receive grants (42 percent). Overall, about 70 percent of those who received financial aid had either attained a degree or were still enrolled after 5 years, compared to 54 percent of those who received no aid.
- One commonly used method to determine the effectiveness of student aid is to compare students from low-income (<\$20,000) families receiving aid, to students from middle-income (\$20,000-\$40,000) families not receiving aid. Assuming that

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

financial aid helps students persist, then the lower-income aided group should show similar attainment results as the higher-income unaided group. Indeed, there is evidence that student aid helps overcome some financial barriers, as BPS data reveal low-income dependent students receiving any financial aid showed substantially greater attainment rates than did middle-income dependent students who did not receive aid. Of the low-income group, 65.8 percent who received aid had attained a degree or were still enrolled, compared to 47.8 percent of the unaided middle-income group. The same pattern exists for other income level comparisons.

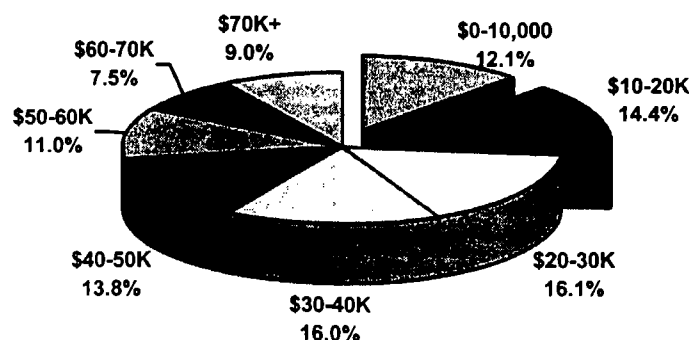
- Similar BPS data looking specifically at Stafford loan borrowing reveals that dependent students with family incomes below \$20,000 who received a Stafford loan obtained a bachelor degree at similar rates as nonrecipient students with family incomes between \$20,000 and \$40,000. The same pattern occurs when comparing upper-middle-income families (\$40,000-\$60,000) with families having incomes in excess of \$60,000.

According to NPSAS 96, students were more likely to borrow when they had high expenses, and they were less likely to borrow when their family incomes were high. The amount of borrowing appears most related to price of attendance rather than family income.

Distribution of Undergraduate Stafford Loan Borrowers by Income Category

The subsidized Stafford Loan is a need-based loan that is relied on predominantly by low- and middle-income families. The following charts reflect the percentage of undergraduate subsidized Stafford Loan borrowers at various income levels according to the 1995-96 National Postsecondary Student Aid Study (NPSAS). The first chart shows the dependent undergraduate distribution and the second chart reflects the distribution for independent undergraduate Stafford Loan borrowers by adjusted gross income categories.

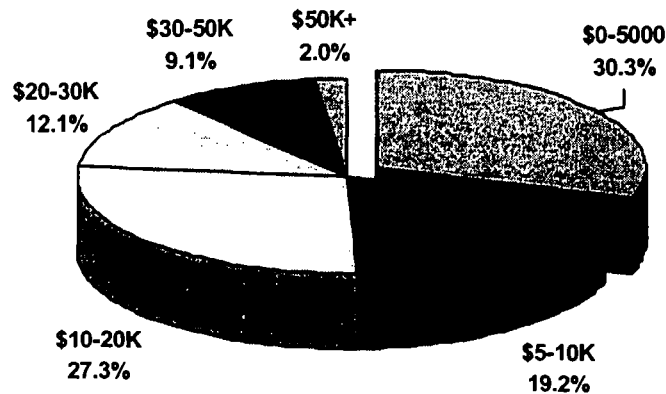
Undergraduate Dependent Stafford Loan Borrower Distribution



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Undergraduate Independent Stafford Loan Borrower Distribution



Institutional Sector Trends

Based on data from the National Student Loan Data System, in Direct Loans, 4-year (4-Yr.) public institutions alone account for about two thirds of borrowers and loan dollars, while in FFEL they account for less than 40 percent. On the other hand, 4-Yr. private institutions are considerably under-represented in Direct Loans compared to FFEL. The proportion of FFEL proprietary school borrowers and loan dollars is over 50 percent greater than the percentage shown for Direct Loans.

Percent of Borrowers by Institution for FFEL and Direct Loans

FY 1998	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
FFEL	38.5	36.5	11.8	1.3	11.9
Direct Loans	66.4	19.2	6.3	0.3	7.8

Percent of Dollars by Institution for FFEL and Direct Loans

FY 1998	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
FFEL	34.7	47.4	6.0	1.0	10.9
Direct Loans	66.3	23.3	3.4	0.3	6.7

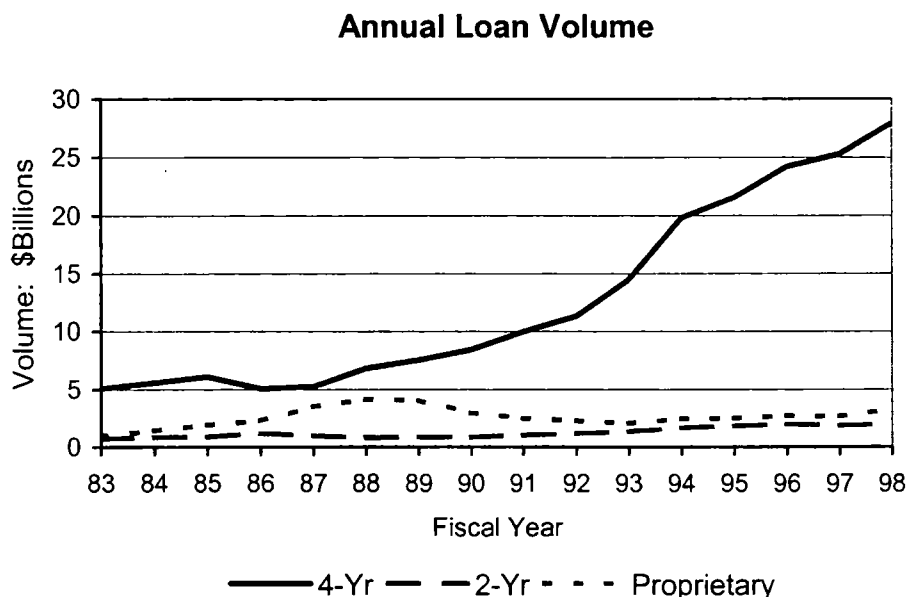
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

The following trends appearing over the years FY 1983 to FY 1998 are noteworthy:

- Proprietary school loan volume reached a high of about \$4.2 billion in 1988--representing 35 percent of all loan dollars—and has since declined to about \$2.6 billion in 1998, accounting for only 8.9 percent of all loan volume.
- Loan volume at four-year institutions grew more than 300 percent, from \$6.8 billion (accounting for 58 percent of volume) to more than \$25 billion, representing about 85 percent of all loan volume.

The following graph depicts annual loan volume trends by 4-year, 2-year, and proprietary school sectors over the past 15 fiscal years. (Direct Loan volume data is included beginning with program inception in fiscal year 1994.)



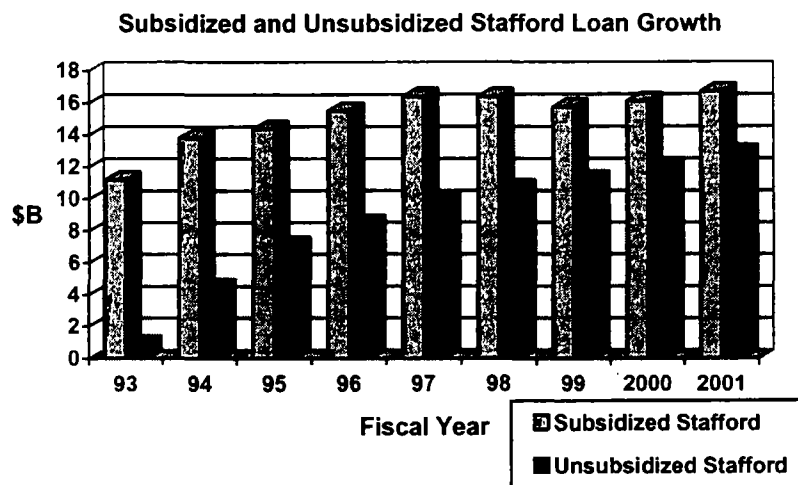
Borrower Trends

A substantial portion of loan volume growth in the 1990's is attributable to the Unsubsidized Stafford Loan program, where students may borrow regardless of financial need. Unsubsidized Stafford Loans first appeared in FY 1993. From FY 1993 to FY 1999, Unsubsidized Stafford loan volume grew from \$911 million to approximately \$11.2 billion, a ten-fold increase. In this period, Unsubsidized Stafford Loan volume increased its share of total borrowing significantly, growing from 5.7 percent of new loan volume in FY 1993 to 37.3 percent in FY 1999.

The following graph shows both Subsidized and Unsubsidized Stafford Loan volume growth since FY 1993, the first year that Unsubsidized Stafford Loans became available. Loan volume growth comprises Subsidized and Unsubsidized Stafford Loans in both the FFEL and Direct Loan programs.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans



PROGRAM COSTS

The largest loan *subsidy costs* involve in-school interest subsidies and costs associated with defaulted loans. Under the FY 2001 proposed budget, Direct Loan subsidy costs in fiscal year 2001 are estimated at -\$516.2 million, supporting some \$15.6 billion in total Direct Loan volume. FFEL subsidy costs are estimated at \$3.35 billion, supporting approximately \$26.9 billion in total FFEL loans. In FY 2001, the Department estimates that the Direct Loan program will have a negative subsidy due primarily to the present value of projected borrower repayments more than offsetting the estimated Federal borrowing costs, excluding administrative costs.

Subsidy rates represent the Federal portion of non-administrative costs—principally interest subsidies and defaults—associated with each borrowed dollar over the life of the loan. Under Federal Credit Reform Act rules, subsidy costs such as default costs and in-school interest benefits are embedded within the program subsidy, whereas Federal administration costs are treated as annual cash amounts and are not included within the subsidy rate. Generally, the subsidy rate for a FFEL or Direct Loan reflects the estimated unit cost per loan to the Federal Government. For example, a \$1,000 loan with Federal subsidy costs of \$100 would have a subsidy rate of 10 percent.

For fiscal year 2001, the weighted average FFEL subsidy rate, is estimated at 11.22 percent; while the weighted average Direct Loan subsidy rate, is estimated at -3.04 percent. Annual variations in the subsidy rates are largely due to variations in short- and long-term interest rates and technical assumptions, as well as policy impacts. Variations in the subsidy rates between the two loan programs largely exist because borrower repayments in the FFEL program go to lenders, while Direct Loan borrower repayments can be used to offset Federal borrowing and partially cover program subsidy costs. Borrower interest repayments—specifically in Unsubsidized Stafford, PLUS, and Consolidation Loans—often exceed Federal borrowing costs under Direct Loans and this helps account for the negative subsidy rates in fiscal years 1999, 2000, and 2001.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

LIQUIDATING ACCOUNT

The cost of FFEL student loan commitments made prior to fiscal year 1992 (the start of credit reform) is appropriated under indefinite authority in a Liquidating Account on a cash basis annually. This account does not estimate loan-lifetime costs by cohort and does not use a net present value calculation. The Liquidating account pays pre-1992 student loan activities such as loan default payments, special allowance payments and interest benefits. No new loans are funded in this account. Consequently, as default and in-school interest costs on these older loans decline over time, and collections on defaulted loans continue to rise, annual revenues will more than offset annual costs, resulting in negative program costs for which no new budget authority is needed.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

<u>FFEL Program Loans</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Stafford Loans:			
Loan volume ¹ (million \$)	\$10,427	\$10,529	\$10,901
Number of loans (000s)	3,091	3,198	3,291
Average loan (whole \$)	\$3,373	\$3,292	\$3,312
Subsidy cost ² (million \$)	\$2,595	\$2,737	\$2,545
Subsidy rate ³	21.55%	23.21%	20.84%
Unsubsidized Stafford Loans:			
Loan volume ¹ (million \$)	\$7,771	\$8,223	\$8,813
Number of loans (000s)	1,970	2,124	2,237
Average loan (whole \$)	\$3,945	\$3,872	\$3,939
Subsidy cost ² (million \$)	\$688	\$767	\$537
Subsidy rate ³	7.84%	8.20%	5.36%
PLUS Loans:			
Loan volume ¹ (million \$)	\$1,908	\$2,207	\$2,442
Number of loans (000s)	293	345	371
Average loan (whole \$)	\$6,522	\$6,401	\$6,590
Subsidy cost ² (million \$)	\$138	\$139	\$145
Subsidy rate ³	5.94%	5.49%	5.17%
Consolidated Loans:			
Loan volume ¹ (million \$)	\$4,720	\$4,581	\$4,745
Number of loans (000s)	266	261	268
Average loan (whole \$)	\$17,754	\$17,582	\$17,696
Subsidy cost ² (million \$)	\$64	\$88	\$123
Subsidy rate ³	1.35%	1.89%	2.56%
Loan Reestimates (million \$)	-\$153	\$776	0
Non-contract Modification ⁴ (million\$)	0	0	-\$590
Total FFEL Program Loans:			
Loan volume ¹ (million \$)	\$24,827	\$25,540	\$26,902
Number of loans (000s)	5,620	5,927	6,167
Average loan (whole \$)	\$4,418	\$4,309	\$4,362
Subsidy cost ² (million \$)	\$3,332	\$4,507	\$2,760
Subsidy rate ³	12.51%	13.17%	11.22%
Cumulative net commitments:			
Total FFELP Loans (billion \$) ⁵	\$260.7	\$281.7	\$303.9

¹ Reflects net commitments (disbursements), which are less than amounts committed (e.g., due to loan cancellations).

² Subsidy amounts are estimated on a net present value basis. Totals may not sum due to rounding.

³ This rate generally reflects the Federal cost per loan dollar. When negative, this indicates a net gain to the Government.

⁴ Reflects impact on prior cohorts from proposed policy reducing guaranty agency default retention percentages.

⁵ Represents total new loans disbursed (excluding consolidations) since the inception of the program in FY 1966.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

<u>Direct Loans</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Direct Stafford Loans:			
Loan volume ¹ (million \$)	\$5,318	\$5,568	\$5,770
Number of loans (000s)	1,659	1,652	1,701
Average loan (whole \$)	\$3,206	\$3,370	\$3,393
Subsidy cost ² (million \$)	\$451	\$208	\$510
Subsidy rate ³	8.17%	3.39%	8.03%
Direct Unsubsidized Stafford Loans:			
Loan volume ¹ (million \$)	\$3,437	\$3,798	\$4,068
Number of loans (000s)	1,027	1,029	1,085
Average loan (whole \$)	\$3,346	\$3,690	\$3,751
Subsidy cost ² (million \$)	-\$410	-\$868	-\$652
Subsidy rate ³	-11.74%	-20.49%	-14.36%
Direct PLUS Loans:			
Loan volume ¹ (million \$)	\$1,198	\$1,239	\$1,372
Number of loans (000s)	205	191	205
Average loan (whole \$)	\$5,837	\$6,497	\$6,690
Subsidy cost ² (million \$)	-\$109	-\$239	-\$200
Subsidy rate ³	-10.40%	-16.39%	-12.36%
Direct Consolidated Loans:			
Loan volume ¹ (million \$)	\$8,006	\$4,250	\$4,403
Number of loans (000s)	412	207	213
Average loan (whole \$)	\$19,449	\$20,520	\$20,653
Subsidy cost ² (million \$)	-\$310	-\$413	-\$175
Subsidy rate ³	-3.95%	-9.59%	-3.92%
Loan Reestimates (million \$)	-\$361	-\$2,442	0
Total Direct Loans:			
Loan volume ¹ (million \$)	\$17,959	\$14,855	\$15,613
Number of loans (000s)	3,303	3,079	3,204
Average loan (whole \$)	\$5,437	\$4,824	\$4,874
Subsidy cost ² (million \$)	-\$739	-\$3,755	-\$516
Subsidy rate ³	-2.15%	-8.14%	-3.04%
Cumulative net commitments:			
Total Direct Loans (billion \$) ⁴	\$43.6	\$54.2	\$65.4

¹ Reflects net commitments (disbursements); which are less than amounts committed (e.g. due to loan cancellations).

² The subsidy amounts are estimated on a net present value basis. Totals may not sum due to rounding.

³ This rate generally reflects the Federal cost per loan dollar. When negative, this indicates a net gain to the Government.

⁴ Represents total new loans disbursed (excluding consolidations) since the inception of the program in FY 1994.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

APPENDIX

MAJOR STUDENT LOAN LEGISLATIVE CHANGES

(Enacted in the Higher Education Amendments of 1998)

Borrower-Related

- **Reduce borrower interest rates.** For new loans on or after October 1, 1998, the interest rate is based on the 91-day Treasury-bill (T-bill) rate plus 2.3 percent while the loan is in repayment, and 1.7 percent during in-school, grace or deferment status. (However, FFEL lenders would receive T-bill plus 2.8 percent in repayment and T-bill plus 2.2 percent during in-school, grace or deferment.) For 1999-2000, student borrowers would have an interest rate of 6.32 percent during an in-school period and 6.92 percent when the loan enters repayment. PLUS borrowers also benefit by having their interest rate basis changed to the 91-day T-bill plus 3.1 percent since the 91-day instrument is typically lower than the 52-week instrument previously used. The PLUS interest rate is 7.72 percent.
- **Treat Consolidation loans uniformly as of February 1, 1999.** For Direct Consolidation Loan applications received on or after October 1, 1998 and before February 1, 1999, the interest rate was based on the 91-day T-bill plus 2.3 percent. As of February 1, 1999 the rate basis changes to the weighted average of the underlying loans being consolidated rounded up to the nearest one-eighth of a percent. In FFEL, this same weighted average basis applies as of October 1, 1998. As of February, 1999, borrowers consolidating in either program will receive the same interest rate basis.
- **Reduce the frequency of interest capitalization in the FFEL program for unsubsidized Stafford loans.** Previously, FFEL program lenders could, by law, capitalize "not more frequently than quarterly." The HEA of 1998 provides that if agreed to by a FFEL borrower and lender, loan interest may be paid monthly or quarterly or only at different stages such as upon entering repayment, or at the expiration of a grace, deferment or forbearance period or when the borrower defaults. This parallels the regulatory policy already existing under Direct Loans.
- **Require FFEL lenders to offer extended repayment for high loan debt.** Provide extended repayment option to new FFEL borrowers who acquire over \$30,000 in student loan debt. Borrowers would have the opportunity to repay such debt over 25 years using fixed or graduated payments. For borrowers with substantial loan debt, this provision permits a much lower monthly amount than would otherwise be required.
- **Allow FFEL borrowers to change repayment plans annually.** This provision moves toward the treatment provided to Direct Loan borrowers who may change plans as often as they choose.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

- **Reduce deferment requirements.** Borrowers would not have to take out additional loans to gain eligibility for an in-school deferment nor would they have to fill out additional forms for an unemployment deferment if they produced evidence of receiving unemployment benefits.
- **Limit loan amounts for short-term programs.** Borrowers in less than one year programs would be eligible for a prorated loan amount based on the ratio of their program length to one academic year.
- **Allow Direct Loan borrowers to consolidate their loans in FFEL.** The new law makes Direct Loans eligible for FFEL consolidation when previously they were not. FFEL loans were already eligible for consolidation in either FFEL or Direct Loans.
- **Shift responsibility for certifying Unsubsidized loan eligibility from student to school.** HEA of 1998 requires that the school send the lender a statement regarding the student's eligibility for an unsubsidized loan and the potential amount. Under prior law, this responsibility fell to the student.
- **Allow lenders to offer lower origination fees to borrowers based on income.** Although the law requires that all borrowers be assessed the same fee, an exception is permitted for lenders who choose to subsidize the fee on behalf of some borrowers due to financial need. (Under proposed regulations, a lender would consider a borrower as demonstrating "greater financial need" if: the borrower's estimated financial contribution (EFC) used to determine eligibility for the loan is equal to or less than the maximum qualifying EFC for a Federal Pell Grant at the time of loan certification or the borrower qualifies for a subsidized Stafford loan or the lender uses a comparable standard.
- **Authorize loan forgiveness for teachers.** New borrowers as of October 1, 1998 who meet certain teaching eligibility requirements, including five consecutive years of teaching in a low-income-level school, would be able to receive up to \$5,000 to repay their student loan.
- **Authorize loan forgiveness demonstration program for child care providers.** Eligible child care providers in low-income communities may have portions of their student loans repaid by the Department: 20 percent of the total loan amount would be paid for the first two consecutive years of service, 20 percent for the third year, and 30 percent for each of the fourth and fifth years.
- **Limit bankruptcy discharge to cases of undue hardship.** HEA of 1998 limits the use of the bankruptcy discharge to cases of "undue hardship." Given deferments, forbearances, and flexible repayment options such as income-contingent and income-sensitive repayment plans, and the detrimental effect of a bankruptcy discharge on a borrower's credit history, allowing a bankruptcy discharge (cancellation) is not the most efficient way to assist borrowers who are facing financial difficulty or the most efficient use of taxpayer dollars. Eliminating the bankruptcy discharge allows the Direct Loan and FFEL programs to redirect resources from processing bankruptcy filings to assisting borrowers in meeting their repayment obligations.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

- **Simplify loan proration requirements.** The HEA of 1998 applies the actual ratio of program length for borrowers in programs of less than one academic year to determine prorated loan limits. This eliminates the fixed proration levels set under prior law.

Lender-related

- **Provide lenders with a 50 basis point interest subsidy.** As part of the HEA reauthorization, Congress passed an interest rate formula that assures lenders a higher return than the rate paid by borrowers. For the in-school period, where the student's rate is T-bill plus 1.7 percent, lenders will receive 91 day T-bill plus 2.2 percent. During repayment, where students pay 91-day T-bill plus 2.3 percent, lenders will receive T-bill plus 2.8 percent.
- **Increase number of days before a delinquent loan goes into default from 180 to 270 days.** Lenders would not be able to file a default claim until the loan is 270 days delinquent.
- **Make explicit that lender insurance is set at 98 percent.** Previous law left room to interpret "not less than 98 percent" as possibly 100 percent, although congressional intent was otherwise.
- **Exempt small lenders from annual compliance audit.** Lenders with portfolios under \$5 million would not be required to submit compliance audits.
- **Require use of FAFSA in FFEL.** For academic year 1999-2000 and beyond, the Free Application for Federal Student Aid (FAFSA) will be required for FFEL borrowers, except for PLUS and Consolidation Loans.

Guaranty Agency-Related

- **Recall reserve funds.** The HEA of 1998 authorized the recall of \$85 million in FY 2002, \$82.5 million in FY 2006, and \$82.5 million in FY 2007, to be deposited in the Treasury.
- **Create new loan processing and issuance fees and maintenance fees and eliminate Administrative Cost Allowances** These fees, which replace payment of Administrative Cost Allowances (ACAs), would be paid by the Government to guaranty agencies. The processing and issuance fees would be based on 0.65 percent of agency loan volume originated on or after October 1, 1998 until October 1, 2003 when the percentage would drop to 0.40 percent. This fee is paid from subsidy. A maintenance fee, to be paid from Section 458 funds, is based on 0.12 percent of volume the agency originated in FY 1999 and 2000 and 0.10 percent for FY 2001-2003. The fees are capped in FY 1999-2003; the cap in FY 2000 is \$180 million and \$170 million in FY 2001.
- **Establish Federal Student Loan Reserve Fund and Operating Fund.** The Federal Fund is used to pay lender claims and all Federal Fund assets are US property. The Federal Fund includes amounts for reinsurance, complement of reinsurance percentage, insurance premiums paid by borrowers, supplemental

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

preclaims, 70 percent of prior ACAs, and other receipts. Guaranty agencies maintain control and ownership of the Operating Fund. This fund includes loan processing and issuance fees, 30 percent of prior ACAs, account maintenance fees, default aversion fees, and guaranty agency default collections.

- **Create Default Aversion Fee.** A guaranty agency will be paid a fee of 1 percent of total unpaid loan principal and interest if, at the request of a lender, it succeeds in bringing a loan into current repayment status on or before the 360th day of delinquency. This fee replaces the supplemental preclaims assistance fee (SPCA). Under final regulations, if a loan on which the guaranty agency has received the fee is subsequently paid as a default claim, the agency must rebate 1 percent of the total unpaid principal and accrued interest to the Federal Fund.
- **Establish Voluntary Flexible Agreements.** From FY 1999 through FY 2001, the Department may enter into no more than six flexible agreements with guaranty agencies. As of FY 2002, any guaranty agency may enter into an agreement with the Department. These agreements can provide for selected statutory and regulatory waivers and allow flexibility in determining fees and guaranty agency responsibilities. Performance goals and standards would determine compliance on a case-by-case basis.
- **Reduce Collection Retention percentage from 27 percent to 24 percent.** The HEA of 1998 lowers the collection percentage that guaranty agencies may retain on defaulted loan collections from 27 percent to 24 percent until October 1, 2003 when the rate drops to 23 percent.

Institution-Related

- **Exempt low-default institutions from delayed loan disbursement.** Schools with a cohort default rate of less than 10 percent for the 3 most recent fiscal years where data is available, are exempt from the 30-day delayed disbursement rules required of first-time, first-year borrowers.
- **Exempt low-default institutions from multiple disbursement for short term enrollment.** Schools with a cohort default rate of less than 10 percent for the 3 most recent fiscal years where data is available, are exempt from the need to use multiple disbursements for loans related to a short period such as a semester or quarter.
- **Exempt certain high-default schools from loss of eligibility.** HBCUs, tribally-controlled community colleges, and Navajo Community colleges were exempt from loss of eligibility due to high cohort default rates until July 1, 1999. The schools now need to submit a default management plan and annually show improvement in their rate to retain the exemption.
- **Loosen the criteria for mitigating circumstances.** Schools may avoid loss of eligibility for high cohort default rates if they meet certain exceptional mitigating circumstances. For example, in a degree-granting institution, if two-thirds of the students enrolled at least half-time are eligible to receive half the maximum Pell Grant or are under the poverty level and the school shows at least a 70 percent completion rate for its regular students, the school would qualify for this exemption.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

In the case where the school does not award degrees, the qualifying test is at least a 44 percent placement rate for all regular students.

- **Set participation rate index in statute.** Schools that have high cohort default rates, but a small number of borrowers may not be subject to loss of eligibility if their participation rate index is equal to .0375 or less. The index is determined by multiplying the institution's cohort default rate by the percentage of borrowers attending at least half-time at the institution. This threshold is based on a default rate of 25 percent multiplied by a borrowing percentage of 15 percent.
- **Exempt multiple disbursements for study abroad.** If the home institution has a cohort default rate of less than 5 percent for the single most recent fiscal year for which data are available, students studying abroad would not be subject to multiple and delayed loan disbursements.

Improve Program Management

- **Require schools to pay loan costs incurred during unsuccessful cohort default rate appeals.** In order to discourage frivolous appeals and protect taxpayer interests, the HEA of 1998 requires that schools that continue to participate while appealing their default rate, must pay the Secretary for all loan costs incurred—including interest, special allowance, and reinsurance—that are associated with loans made during the unsuccessful appeal.
- **Provide for the use of a master promissory note in the FFEL and Direct Loan programs.** HEA requires the Department to use a master promissory note for periods of enrollment beginning July 1, 2000. This note will enable students to borrow additional loans for subsequent enrollment periods without having to sign a new, separate note each time. This is similar to the multi-year promissory note previously proposed by the Department during reauthorization. Use of a master promissory note is intended to reduce burden on schools and the Federal Government, and decrease loan processing time.

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FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Divider Title: _____

Department of Education
FEDERAL ADMINISTRATION OF
POSTSECONDARY EDUCATION PROGRAMS

Fiscal Year 2001 Budget Request

CONTENTS

	<u>Page</u>
Narrative Justification:	
Summary of Program Costs.....	Q-1
FTE Summary	Q-2
Program Description	Q-2
Postsecondary Education Management Funding Sources	Q-3
Factors Influencing FY 2001 Budget Request	Q-3
Legislative Requirements	Q-4
Recent Accomplishments	Q-4
Near-Term Challenges	Q-5
FY 2001 Budget Request.....	Q-6
Office of Student Financial Assistance	Q-7
Funding for Basic Operations	Q-8
Investments to Support Transition to PBO.....	Q-8
Other Offices.....	Q-12
Selected Program Performance Information	Q-14
HEA Section 458 Long-Range Plans	Q-15
Tables:	
Summary of Program Costs.....	Q-1
FTE Summary.....	Q-2
OSFA Spending by Activity	Q-7
OSFA Transition Investments	Q-9
Obligations by Object Classification	Q-16
OSFA	Q-16
Other Offices	Q-18
Total, OSFA and Other Offices.....	Q-20

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Summary of Program Costs (\$000s)

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Office of Student Financial Assistance:			
HEA Section 458	\$684,463	\$716,799	+\$32,336
FFEL Federal Administration	37,815	35,726	-2,089
Program Administration	<u>57,947</u>	<u>59,247</u>	<u>+1,300</u>
Subtotal, Office of Student Financial Assistance	780,225	811,772	+31,547
Other Offices: ¹			
HEA Section 458	50,537	53,201	+2,664
FFEL Federal Administration	10,185	12,274	+2,089
Program Administration (OPE)	21,317	22,286	+969
College Housing and Academic Facilities Loans (OPE)	737	737	0
HBCU Capital Financing (OPE)	<u>207</u>	<u>208</u>	<u>+1</u>
Subtotal, Other Offices	82,983	88,706	+5,753
Total, Federal Administration of Postsecondary Education Programs by Source:			
HEA Section 458	735,000	770,000	+35,000
FFEL Federal Administration	48,000	48,000	0
Program Administration ²	79,264	81,533	+2,269
College Housing and Academic Facilities	737	737	0
Loans			
HBCU Capital Financing	<u>207</u>	<u>208</u>	<u>+1</u>
Total, Federal Administration of Postsecondary Education Programs	863,208	900,478	+37,270

¹ Includes the Office of Postsecondary Education (OPE), which is responsible for student aid policy, institutional accreditation, and the administration of programs under the Higher Education account. Also includes postsecondary education-related support costs, primarily for postage, rent, and central automated data processing services, that are incurred by offices outside OSFA and OPE.

² Reflects only that portion of Program Administration funds supporting postsecondary education programs. The balance of the account is discussed in the Program Administration section, beginning on page Y-1.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

FTE Summary

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Federal Postsecondary Program Administration			
FTE by Office:			
Office of Student Financial Assistance	1,232	1,232	0
Other Offices	<u>269</u>	<u>269</u>	<u>0</u>
Total FTE, Federal Administration of Postsecondary Education Programs	1,501	1,501	0

PROGRAM DESCRIPTION

In FY 2001, the Department of Education will oversee the provision of over \$54 billion in Federal student aid grants and loans to nearly 9 million students and parents, as well as more than \$1 billion in additional grants and loans to higher education institutions. In awarding this aid, the Department and its contractors will interact on a daily basis with over 6,000 schools; 4,100 lenders; 36 guaranty agencies; and dozens of accrediting agencies, participants in the secondary market for student loans, and other organizations.

Ensuring the smooth operation of this enormously complex array of financial transactions—and safeguarding the interests of both students and the Federal taxpayer—is perennially the Department's greatest management challenge and its highest administrative priority. Two of the four goals in the Department's Strategic Plan—Goal 3, Ensure access to postsecondary education and lifelong learning, and Goal 4, Make the Department a high-performance organization by focusing on results, service quality, and customer satisfaction—are directly related to these activities.

With strong bipartisan support, the Higher Education Amendments of 1998 created the Federal Government's first Performance-Based Organization (PBO), the Office of Student Financial Assistance (OSFA), reporting directly to the Secretary of Education. The PBO was given increased operating flexibility and chartered to improve customer service, reduce cost, and integrate its computer systems. Within weeks of the legislation being signed by the President, the Department had reorganized to put the PBO in place and provide it with transition administrative support. (A number of other Department offices, including primarily the Office of Postsecondary Education, also play a role in administering the postsecondary education programs. Funding for these offices is discussed beginning on page Q-13.)

Since that time, the PBO has undertaken a range of major organizational, systems redesign, and customer service initiatives; these initiatives, many of which are now entering their implementation phase, will be the foundation of the PBO's activities in FY 2000 and 2001. Final implementation decisions on a number of the most significant initiatives—including, most importantly, the SFA Systems Modernization Blueprint—are still in the process of being refined.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

As a result, funding totals discussed in this submission may change as these decisions are finalized over the next few months.

This overview will outline the Department's FY 2001 request for funds to administer the postsecondary education programs. The primary focus will be on OSFA, which accounts for over 90 percent of the funds requested. Prior to these specific discussions, however, is a brief review of the funding sources that support these activities and background materials on factors influencing the Department's request.

Postsecondary Education Program Management Funding Sources

Funding to support the management of postsecondary education programs comes from five sources: 1) funds appropriated on a permanent basis under Section 458 of the Higher Education Act (HEA); 2) a portion of the Department's general Program Administration funds; 3) a discretionary appropriation partially supporting administrative activities associated with the Federal Family Education Loan (FFEL) program; 4) discretionary appropriations to support the administration of the College Housing and Academic Facilities Loan (CHAFL) and Historically Black Colleges and Universities (HBCU) Capital Financing programs, and 5) funds from the Direct Loan and FFEL program subsidy accounts to support loan-related activities (primarily involving various default collection activities). This submission does not address funding from the latter category, which is mandatory in nature and not subject to annual appropriations. Funding for the CHAFL and HBCU Capital Financing account are discussed separately in justifications beginning on pages U-1 and V-1, respectively.

As shown in the Summary of Program Costs on page Q-1, HEA Section 458 funds account for by far the largest portion of postsecondary education administrative spending, making up 85.1 percent of the total supporting these activities in FY 2000. A substantial portion of these HEA Section 458 funds—24.5 percent in FY 2000—are paid directly to FFEL guaranty agencies as account maintenance fees. Funding for other Department offices that support postsecondary education program management totals \$83.0 million in FY 2000. Of these funds, \$22.3 million, or roughly 26.8 percent, supports the Office of Postsecondary Education. The balance, more than 83 percent of which comes from Section 458, involves postage, rent, and other support costs associated with student aid delivery.

Factors Influencing FY 2001 Budget Request

In developing this submission, the Department took into account a wide range of factors, including—

- Legislative requirements in recent authorizing legislation establishing OSFA as a performance-based organization;
- Recent accomplishments that the new organization can build upon; and

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

- Near-term challenges that are addressed by OSFA's interim performance plan for FY 1999 and form the basis for the PBO's recently completed FY 2000-2004 performance plan.

Legislative Requirements. Under the Higher Education Amendments of 1998, OSFA is responsible for managing the operational functions supporting the Title IV programs. It is guided by a Chief Operating Officer (COO) who reports directly to the Secretary of Education.

OSFA's primary statutory mandate is to improve service to customers while keeping down costs. This is to be accomplished through increased accountability of program managers combined with greater management flexibility, as well as integrated information systems.

On December 7, 1998, Greg Woods was sworn in as COO for OSFA. Under the law, the Secretary and the COO must agree on, and make available to the public, a performance plan for the PBO for the succeeding five years that establishes measurable goals and objectives for the organization. This plan, which has been developed in consultation with stakeholders, including: students; institutions of higher education; Congress; financial partners; the Advisory Committee on Student Financial Assistance; and other interested parties, is expected to be released in the near future. The most recent draft of this plan has been posted on the OSFA website. Pending final approval, this draft is being used as the basis for OSFA management activities.

Recent Accomplishments. The past few years have seen major improvements in student financial aid operations, even as the volume of Direct Loan and other transactions has grown dramatically. Most of these accomplishments preceded the creation of the PBO. They include:

- The Direct Loan program was established and grew from roughly 7 percent of overall loan volume and 300,000 borrowers in its first year, FY 1994, to roughly a third of all loans for the current academic year (1999-2000). Through FY 1999, the program made over \$56 billion in loans to roughly 4 million borrowers; by the end of FY 2000, these figures are expected to rise to \$71 billion and over 6 million borrowers.
- The cohort student loan default rate has dropped for 7 consecutive years, to an all-time low of 8.8 percent. In addition, collections on defaults have more than tripled—to over \$3 billion a year—over the same period.
- Our institutional oversight activities have been thoroughly redesigned to focus resources on the highest risk schools, better coordinate regional and headquarters staff activities, and institute a case management approach that allows us to identify and resolve school problems more promptly.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

- The National Student Loan Data System (NSLDS) offers a centralized data base to verify student eligibility, calculate institutional default rates, and facilitate program oversight and other accountability measures for the first time in the over-30-year history of the student aid programs. Also, since 1994, eligibility checks performed through NSLDS have identified defaulters applying for additional financial aid, preventing the award of over \$1 billion in loans and grants to ineligible students.
- The Department has dramatically improved data collection and management in the Federal student loan programs. These improvements were instrumental in helping the Department to receive its first-ever unqualified opinion on its FY 1997 audited financial statement; auditors reviewing the Department's FY 1998 statement also raised no material issues with the data used to prepare loan program estimates.
- Less than two years ago, the Department temporarily suspended accepting loan consolidation applications because of problems keeping up with demand. Now, with a reinvented approach, the Department is processing a much greater volume and maintaining an average turn-around time of 60 days or less.
- The Department has saved millions of dollars by restructuring major OSFA systems contracts to centralize processing activities at a single, cost efficient data center. (These savings have helped the Department provide expanded service within statutorily limited funding levels, as well as to support ongoing modernization activities.) Processing under a number of major contracts—including NSLDS and the Pell Grant and Campus-Based Aid systems—has already been shifted to this center; all processing activities are expected to be transferred to the center by the end of FY 2000.
- Students can now file applications for Title IV student assistance over the Internet, which saves time, reduces errors, and cuts processing costs.
- Working with the FFEL community, the Department is implementing a master promissory note for both Direct and FFEL loans beginning in academic year 1999-2000. This will streamline the loan delivery process by eliminating, for most schools and borrowers, the need to execute a separate promissory note every year a student borrows.

Near-Term Challenges. OSFA's interim performance plan—a performance contract between the Secretary and OSFA covering operations through September 30, 1999—laid the foundation for transforming OSFA into a performance-based organization. The interim plan set forth these overall performance objectives—

- Improve customer satisfaction;
- Reduce the cost of delivering student aid; and
- Transform the Office of Student Financial Assistance into a PBO.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

These objectives are also at the core of the draft 5-year performance plan. (The major elements of the 5-year plan are discussed beginning on page Q-12.) Specific efforts over the past 6 months have focused on the following areas.

- **Improve Customer Satisfaction** – While improving the current level of overall customer service, the Department has targeted areas through efforts such as increasing electronic filings and introducing new Internet-based electronic services, placing greater emphasis on technical assistance and training, and providing a single point of contact for our customers.
- **Reduce the Overall Cost of Delivering Student Aid** – Within the context of a multi-year campaign to reduce the cost of delivering Title IV aid, the Department has begun to identify those operational improvements that would have the greatest impact on costs. The Department is examining ways to reduce unit costs for major OSFA business processes. Cost baselines are being established, and improved financial systems will be developed to accurately measure and track these costs over time.
- **Make the Transition to a PBO** – In early September 1999 the Department approved and began implementation of a major reorganization intended to better align OSFA's structure with its major customers and partners: students, schools, and financial partners. Department staff have begun to benchmark the processes, systems, and employee performance of high-performing organizations. The recommendations of OSFA's Customer Service Task Force were delivered in July 1999; the recommendations are currently under review with an eye toward implementing specific, top-to-bottom improvements in customer satisfaction and service. Lastly, the Department developed, in consultation with its external partners, a modernization blueprint to guide the re-engineering of OSFA systems. In August 1999, Andersen Consulting was awarded a contract as OSFA's modernization partner in implementing the blueprint over the coming years.

FY 2001 BUDGET REQUEST

The Department is requesting \$900.5 million to support postsecondary education program management activities and payments for services to guaranty agencies in FY 2001, an increase of \$37.3 million, or 4.3 percent over the FY 2000 level. As will be the case in FY 2000, the bulk of FY 2001 spending will be used to maintain current services related to the student financial assistance programs. With careful management, sufficient resources will be available in both years (\$80.4 million in FY 2000 and \$69.7 million in FY 2001) for the Department to begin addressing OSFA's other major challenges, including, most importantly, implementing the blueprint for modernizing computer systems.

The Department's request for postsecondary education management funds is divided among three funding sources:

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

- \$770 million (85.5 percent of the overall request) from a mandatory appropriation provided under Section 458 of the Higher Education Act, which finances most Federal loan administration costs for FFEL and Direct Loans. This amount includes \$170 million for guaranty agency account maintenance fees that are financed by Section 458. Setting aside these fees, Section 458 funds supporting Department postsecondary education operations will total \$600 million—or 82.1 percent of total Department postsecondary administration spending—in FY 2001.
- \$48 million (5.3 percent of the overall request, 6.6 percent of internal Department spending) for FFEL administration, a discretionary account that finances a portion of those FFEL costs not paid for under Section 458.
- \$81.5 million (9.1 percent of the overall request, 11.2 percent of internal Department spending) from the discretionary Program Administration account, for general program management and administration of Title IV grant programs. (This reflects the OSFA and OPE portions of the central administrative account that funds most salaries and expenses of the Department. Aside from the small CHAFL and HBCU Capital Financing appropriations, OPE's activities are entirely supported with Program Administration funds.)

Office of Student Financial Assistance

As shown in the table below, nearly 60 percent of OSFA spending in FY 2001 will support information technology (IT) contracts, which include customer support and management of many of the business processes that deliver Federal student aid. Payments to guaranty agencies from Section 458 funds, the second largest spending category, account for \$170 million—or 20.9 percent—of the total OSFA request.

OSFA Spending By Activity: FY 2000-2001 (In millions of dollars)

	<u>2000</u>		<u>2001</u>	
	Spending	Percent Of Total	Spending	Percent of Total
Information Technology Systems	\$443.3	56.8%	\$487.2	60.0%
Payments to Guaranty Agencies	180.0	23.1%	170.0	20.9%
Personnel Costs	95.6	12.2%	99.8	12.3%
Other Activities ¹	61.3	7.9%	54.8	6.8%
Total	780.2	100.0%	811.8	100.0%

¹ Includes non-IT contracts and printing, as well as smaller items such as travel, training, and supplies and equipment. Also includes \$19 million in FY 2000 and \$11 million in FY 2001 to support OSFA facilities improvements.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

A complete list of this spending by object classification is provided at the end of this submission. These amounts exclude \$103.4 million for loan-related activities (primarily debt collection activities) that are financed under the Direct Loan and FFEL program subsidy accounts.

The FY 2001 budget request for OSFA includes a \$32.3 million increase over FY 2000 for funds provided under the mandatory Section 458 appropriation. This increase supports the growing loan volume under the Direct Loan and FFEL programs. Outstanding Direct Loan volume will increase from \$54 billion to nearly \$65 billion between FY 2000 and the end of FY 2001, and the total borrowers in repayment will increase from 3 million to 4 million. Outstanding FFEL volume will increase from \$131 billion to over \$137 billion between FY 2000 and FY 2001.

Of the total budget for FY 2001, \$742.1 million (91.4 percent of OSFA management costs) is to continue essential operations and \$69.7 million (8.6 percent) is for necessary investments to modernize OSFA systems to enable future reductions in unit costs and to expedite the transition to a customer-focused, performance-based organization.

Funding for Basic Operations

OSFA operating costs for FY 2001 are divided among three major categories.

Financial Assistance Delivery. OSFA will spend \$487.2 million in FY 2001—or 75.9 percent of internal management costs—on private-sector data processing contracts to originate and service Direct Loans, process applications for student aid and payments to students, schools, guaranty agencies, and lenders, and collect defaulted loans. The costs of the largest of these contracts are driven by workload volume; without substantial system changes, the cost of these contracts will nearly double between FY 1999 and FY 2004. Over the same period, Direct Loan originations will increase by 38 percent, Direct Loan borrowers in servicing will double, and applications for financial aid will rise by 8 percent.

Personnel Compensation and Benefits. Overall personnel compensation and benefits costs will increase by \$4.2 million from FY 2000 to FY 2001, from \$95.6 million to \$99.8 million. OSFA staffing levels are expected to remain steady at 1,232; the increase in costs reflects built-in factors such as the 2000 pay increase, the proposed government-wide Federal pay increase scheduled for January 2001, and growth in the Federal cost of employee benefits.

Printing, Travel, and Other Support Activities. Beyond data processing contracts and staff costs, student aid operations costs include printing, travel, training, and other support activities. This spending drops from \$61.3 million in FY 2000 to \$54.8 million in FY 2001. Savings in this area will be realized from process re-engineering, such as reducing printing costs through increased electronic communications.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Investments to Support Transition to PBO

As noted above, OSFA has earmarked \$69.7 million in FY 2001 to support a range of modernization initiatives. Investment spending by category is shown in the following table.

OSFA Transition Investments (In millions of dollars)

<u>Activity</u>	<u>FY 2001</u>
Implementing Modernization Blueprint	\$48.5
Facilities Improvement	11.0
Customer Service Task Force Recommendations	1.0
Enhanced Financial Management	5.2
Staff Training	3.0
Organizational Development	1.0
Total, OSFA Investments	69.7

These investment activities include:

Implementing Modernization Blueprint. Currently the delivery and management of Title IV assistance is largely carried out under 14 systems operated by 8 separate contractors. This costly and cumbersome stovepipe structure evolved over many years, reflecting the highly complex web of transactions and participants involved in delivering Federal student aid. Re-engineering the business processes, and designing an integrated, user-friendly system to support them, is a high priority of Congress and the Administration.

A number of modernization activities are already underway:

- Consolidation of OSFA's data center operations in a single location, under a single contract with Computer Sciences Corporation;
- Voluntary pilot projects, such as Access America for Students, Colorado State University Mentor, and Colorado Pepper, which test new ways to deliver electronic services to students.
- New services and improvements being incorporated into existing contractor systems. This includes enhancing student Internet access to Title IV services, such as applying for a consolidated loan or accessing loan information in the National Student Loan Data System. To provide timely and user friendly information to schools, a new Pell Grant Recipient Financial Management System has been implemented, supporting pilots of just-in-time funding.

All these efforts support Project EASI (Easy Access for Students and Institutions), a collaborative effort between the Department of Education (EASI/ED) and Title IV program participants to redesign the current cumbersome and costly systems. By using new technology

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

and electronic data exchange now in use by the financial industry, Project EASI's intent was to create an integrated, student-focused delivery system that provided students and Title IV delivery partners with ready access to program information they need.

EASI and other planned OSFA modernization activities have been incorporated into a single coherent framework: a modernization blueprint for all the Title IV information technology (IT) systems. In developing this blueprint, OSFA and its partners documented all major business requirements and systems, and created a sequenced "roadmap" of changes necessary to create the integrated delivery system envisioned in the HEA amendments. Systems requirements have been grouped into systems modules that will be acquired in logical sequence. The blueprint aims to validate the work done to date through Project EASI, revise it where necessary, and fill the gaps. As noted above, the Department has brought Andersen Consulting on board as its modernization partner to assist in implementing the changes outlined in the blueprint.

To be certain the future system adequately addresses the needs of external users, the Department will continue to collaborate on the blueprint with students, institutions, and financial partners throughout the implementation process.

A key driver in the Department's student aid modernization strategy will be maximizing the number of transactions that can be done electronically using the Internet. Electronic transactions significantly reduce processing costs and error rates. The Free Application for Federal Student Aid (FAFSA) costs 45 percent more to process in paper form than electronic form. Error rates average 12 to 14 percent for paper applications compared to one percent for electronic ones.

The benefits of electronic processes have also been documented in the lending industry. Data from the Federal Reserve, based on surveys of member banks, show that electronic applications for installment loans cost less than \$2 each, compared with more than \$40 for paper applications. Electronic payments cost about \$0.12 each, while non-electronic payments cost more than \$2 each.

In conjunction with the modernization blueprint, the Department is developing entirely new acquisition strategies intended to lower costs and improve contractor performance. These include:

- Using performance-based contracts in all major new awards; and renegotiating contracts, using share-in-savings strategies, to maximize incentives to identify savings while maintaining or improving service levels;
- Utilizing new procurement flexibilities included in the Higher Education Amendments, including modular contracting, two-phase source selection; and fee-for-service arrangements;

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

- Using existing off-the-shelf commercial software, rather than custom-building new OSFA systems, to carry out commercially available services;
- Recruiting new staff, and tapping contract management expertise from other Federal agencies and private industry, to help the PBO take full advantage of its new procurement flexibilities; and
- Providing improved training in contract management to all managers and staff involved in contract oversight.

Developing the integrated Title IV delivery system described in the PBO legislation will require significant up-front investments. These will yield outyear savings per item processed as old systems are eliminated and new ones brought on-line. Because implementation plans for OSFA's blueprint for modernization of computer systems are not yet complete, and because of the rapid changes taking place in information technology, estimates of the costs or savings associated with new systems modules have yet to be finalized. As detailed designs for initial system modules are developed, the Department will estimate and report to Congress on all development costs and anticipated savings in a structured information technology investment review board process.

Facilities Improvements. About 700 OSFA employees work in the Washington office in overcrowded conditions at 7th and D Street, Southwest. Available space for these employees is one-third less than the Department's workstation standards. Independent tests have documented air quality problems; problems with aging plumbing and insulation and peeling paint add to the difficulties. These conditions undermine staff morale and the ability to recruit highly qualified personnel.

OSFA is working with OMB and the General Services Administration to find a new location for its Washington, DC offices. While plans are still at a preliminary stage, it is expected that the costs to build-out new space and relocate employees will total \$30 million over the next 3 years. Spending in FY 2001 is currently budgeted at \$11 million.

Customer Service Task Force Recommendations. On July 1, 1999, OSFA's Customer Service Task Force issued its final report to the Secretary. Its recommendations for changes to improve customer service were based on extensive input from all segments of the Title IV community: students, schools, guaranty agencies, lenders, servicers, contractors, and more. While many of the recommendations can be implemented by redirecting existing resources, or can be financed under other PBO Transition activities (such as systems modernization and staff training), certain activities do not fall under any of these categories. Thus, OSFA is reserving an additional \$3 million in FY 2000 and \$1 million in FY 2001 to support implementation of these recommendations.

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Enhanced Financial Management. As noted above, the Department has made progress on its financial systems, dramatically improving, with its FFEL partners, the quality of financial data in the National Student Loan Data System. In the process, OSFA identified major challenges that must be achieved to meet high standards and its mandate to reduce costs and improve accountability. For managers to have reliable information to measure costs and performance and to inform management decisions, financial management systems must be significantly improved. Responsibility for these improvements is shared by OSFA and its FFEL partners. More work is needed to ensure that data provided to the Department by its partners is timely, accurate, and complete.

Within OSFA, enhanced financial management systems will ensure that PBO operations are fully accountable to taxpayers, as well as provide the data needed to accurately measure reductions in unit costs. Some of the costs of these enhancements may be subsumed under the systems modernization activity. For FY 2000, however, the Department plans to dedicate \$8 million to develop a new OSFA financial management system, tied to the modernization blueprint. In FY 2001, we are requesting \$5 million to develop interfaces between this new system and the Department's new central accounting system.

Staff Training. The Department will spend \$3 million in FY 2001 for additional training to ensure that OSFA employees have the appropriate skills to perform their jobs well. This is in addition to funds already provided above under basic operations. Under the new OSFA organization, some employees will move into new responsibilities, and many others will be expected to perform prior duties in new ways, taking advantage of evolving technology and improved business processes.

Based on the recommendations from the Customer Service Task Force, OSFA staff have started the planning and design process for an OSFA University. It is hoped that this unit will partner with the higher education community to provide high quality, cost-effective training on a wide array of subjects (e.g., Title IV programs, technical skills, leadership training) to both the external Title IV community and OSFA employees.

Organizational Development. As noted above, the Department recently began implementing a major reorganization to align OSFA's activities with its customers and partners. In addition to the COO, the five key managers will be: the General Manager for Students, the General Manager for Schools, the General Manager for Financial Institutions, the Chief Information Officer, and the Chief Financial Officer. To ensure smooth implementation of the reorganization, including labor-management issues that will need to be addressed, OSFA is budgeting \$1 million in FY 2001 for expert consultant services to support the transformation.

Other Offices

In addition to OSFA, a number of other Department offices support postsecondary education activities. The Department is requesting \$65.5 million to support these offices in FY 2001, an increase of \$4.8 million over FY 2000. Of these funds, \$53.2 million—or 81 percent—are

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Section 458 funds and \$12.3 million—or 19 percent—is from the FFEL Federal Administration account.

The Office of Postsecondary Education is charged with developing postsecondary education policy, overseeing institutional accreditation, and administering programs under the Higher Education account, such as TRIO, GEAR-UP, and Title III. The Department is requesting \$23.2 million for OPE in FY 2001, a \$970,000 increase over the FY 2000 level. Of this total, \$22.3 million—or 95.9 percent—is from the program Administration account; \$737,000 from the CHAFL account; and \$208,000 from the HBCU Capital Financing account. As noted above, activities related to the two facilities programs, both of which are managed by OPE, are discussed in detail in their respective justifications.

OPE consists of the Office of Higher Education Programs (HEP); the Office of Policy, Planning and Innovation (PPI); and the Immediate Office of the Assistant Secretary. Almost 65 percent—or \$16.2 million—of the funds requested for OPE in FY 2001 will support personnel costs associated with 237 FTE. Roughly 60 percent of these FTE are associated with the management of the Higher Education programs, which are discussed in detail in the Higher Education submission beginning on page S-1.

PPI staff support the Fund for the Improvement of Postsecondary Education, which awards competitive grants and contracts to encourage innovative programs and practices; the Quality Improvement and Strategic Planning Staff, which coordinates the development and monitoring of performance measures and other Government Performance and Results Act requirements for higher education programs; and the Policy, Budget, and Analysis Staff, which provides cross-cutting student aid and higher education policy analysis and development services. The Office of the Assistant Secretary staff provide administrative support—including personnel, budget, computer services, and correspondence management. This office also includes the White House Initiative on Historically Black Colleges and Universities.

Aside from OPE, almost all of the funds requested for Other Offices—\$50.2 million, or 94 percent in FY 2001—pay for common support activities such as postage, rent, and central computer services. Virtually all of this common support spending is directly associated with OSFA. Postage costs—which total \$34.7 million in FY 2001, a \$1.0 million increase over the FY 2000 level—represent the largest single common support charge. Postage charges support the distribution of millions of student aid applications, Student Guides, and Direct Loan statements and other borrower-related correspondence. The Department is committed to exploring ways, such as greater use of the Internet, as well as United Parcel Service and other private carriers, to reduce postage charges.

Other significant common support costs in FY 2001 include rent (\$10.4 million), central computer services (\$6.6 million), and central telephone charges (\$2.0 million.) These costs do not represent significant increases over the FY 2000 level.

In addition to these common support costs, Section 458 funds support 32 FTE and a number of small contracts outside of OSFA and OPE. These FTE include personnel in the Office of Management, Office of the General Counsel, Office of the Chief Financial Officer/Chief

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Information Officer, and Office of the Under Secretary that work extensively on the FFEL and Direct Loan programs. The contract costs reflect activities such as the preparation of the loan portion of the Department's audited financial statement.

Selected Program Performance Information

The Department is currently in the final stages of developing a 5-year performance plan for OSFA; this plan will be incorporated in the Department's overall strategic plan, as well as in relevant materials related to the Government Performance and Results Act. The most recent draft of this plan has been posted on the OSFA website. Pending final approval, this draft is being used as the basis for OSFA management activities.

In developing its performance plan, OSFA has focused on three basic indicators: customer satisfaction, unit cost, and—because it is essential to improving both—employee satisfaction. OSFA's 5-year goals are stated in terms of specific, quantifiable improvements in these three measures. While the organization is still in the process of developing final data gathering and measurements systems; as shown below, however, aggregate baselines and tracking mechanisms have been developed for all three core measures.

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Customer Satisfaction. Increase customer satisfaction to a comparable private sector industry average—American Customer Satisfaction Index (ACSI) rating of 74 (out of a possible score of 100) by FY 2002. <i>FY 1999 baseline: OSFA's FY 1999 ACSI rating was 63. This result, however, was based only on OSFA's student application process. In FY 2000, OSFA will expand the measure to include each of our ten core business processes.</i>	63			74

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2004</u>
Unit Costs. By FY 2004, reduce actual unit costs from projected FY 2000 unit costs by 19 percent. <i>FY 2000 baseline: Unit costs for FY 2000 reflect projected cost per recipient under the existing system structure. Unit costs are defined as total costs in a fiscal year divided by the number of unduplicated recipients of loans and grants.</i>		\$28.50	\$28.00	\$24.55

<u>Indicator</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2004</u>
Employee Satisfaction. Improve OSFA's ranking of employee satisfaction in the Office of Personnel Management (OPM)'s and National Performance Review (NPR)'s employee opinion survey from 33 rd to top 5 by FY 2002. <i>FY 1999 baseline: OSFA scored 33rd out of 50 on the FY 1998 OPM/NPR survey. The FY 1999 survey was taken during an OSFA-wide reorganization and while many employees were transitioning to new senior-level managers. FY 1999 scores are expected to remain at the FY 1998 level.</i>	33 rd			Top 5

HEA Section 458: Long-Range Plans

Over FY 2000-2004, the Department expects to use HEA Section 458 funds to support similar activities to those discussed above: origination and servicing of loans; student aid application processing and data systems; default collection; and payments for services to FFEL guaranty agencies. Spending under HEA Section 458 is expected to increase from \$735 million in FY 2000 to \$770 million in FY 2001, \$780 million in FY 2002, and \$795 million in all subsequent fiscal years. (These funding levels were included in the Higher Education Amendments of 1998.)

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Office of Student Financial Assistance (\$ in millions)

	2000				2001			
	HEA Sec. 458	FFEL	Program Admin	Total	HEA Sec. 458	FFEL	Program Admin	Total
Full-Time Permanent	\$34.8	\$22.8	\$19.6	\$77.2	\$35.3	\$24.0	\$20.6	\$79.9
Overtime	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1
Awards	0.5	0.3	0.2	1.0	0.5	0.3	0.2	1.0
Benefits	7.6	5.2	4.5	17.3	8.2	5.6	4.8	18.6
Travel	3.5	0.7	0.9	5.1	3.7	0.7	1.0	5.4
Transportation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rent to GSA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Communicat.	9.3	0.0	0.0	9.3	9.9	0.0	0.0	9.9
Postage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Printing	5.7	0.0	2.8	8.5	5.9	0.0	2.9	8.8
Advisory & Assistance	1.0	0.0	0.0	1.0	1.0	0.0	0.0	1.0
Other Services	8.6	0.8	2.8	12.2	10.2	0.8	1.2	12.2
Training	2.7	0.1	0.2	3.0	2.8	0.1	0.2	3.1

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Office of Student Financial Assistance (continued) (\$ in millions)

	2000				2001			
	HEA Sec. 458	FFEL	Program Admin	Total	HEA Sec. 458	FFEL	Program Admin	Total
Goods/Service From Gov't	\$0.7	\$0.4	\$0.1	\$1.2	\$0.7	\$0.4	\$0.1	\$1.2
Oper./Main. Of Facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oper./Main. Of Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ADP Contracts	410.0	7.3	26.0	433.3	456.2	3.6	27.4	487.2
Supplies	0.3	0.1	0.4	0.8	0.3	0.1	0.4	0.8
ADP Equip./ Software	0.7	0.1	0.3	1.1	1.0	0.1	0.3	1.4
Other Equip.	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Building Alterations	19.0	0.0	0.0	19.0	11.0	0.0	0.0	11.0
Guaranty Agency AMFs	<u>180.0</u>	<u>0.0</u>	<u>0.0</u>	<u>180.0</u>	<u>170.0</u>	<u>0.0</u>	<u>0.0</u>	<u>170.0</u>
Total	684.5	37.8	57.9	780.2	716.8	35.7	59.2	811.7
FTE	539	368	325	1,232	539	368	325	1,232

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Other Offices
(\$ in millions)

Q-18

	2000						2001					
	HEA Sec 458	FFEL	Prog Admn	CHAFL	HBCU	Total	HEA Sec 458	FFEL	Prog Admin	CHAFL	HBCU	Total
Full-Time Permanent	\$2.3	\$0.0	\$14.8	\$0.4	\$0.1	\$17.6	\$2.4	\$0.0	\$15.6	\$0.4	\$0.1	\$18.5
Overtime	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.1
Awards	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.2
Benefits	0.5	0.0	3.0	0.1	0.0	3.6	0.6	0.0	3.2	0.1	0.0	3.9
Travel	0.0	0.0	0.7	0.0	0.0	0.7	0.0	0.0	0.7	0.0	0.0	0.7
Transportation	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.2
Rent to GSA	5.0	5.1	0.0	0.1	0.0	10.2	5.2	5.2	0.0	0.0	0.0	10.5
Communicat.	1.2	0.8	0.1	0.0	0.0	2.1	1.3	0.9	0.1	0.0	0.0	2.3
Postage	32.8	0.9	0.0	0.0	0.0	33.7	33.8	0.9	0.0	0.0	0.0	34.7
Printing	0.1	0.1	0.4	0.0	0.0	0.6	0.1	0.1	0.4	0.0	0.0	0.6
Advisory & Assistance	0.2	0.0	0.8	0.0	0.0	1.0	0.2	0.0	0.8	0.0	0.0	1.0
Other Services	0.6	0.1	0.4	0.0	0.1	1.2	0.6	0.5	0.4	0.0	0.1	1.6
Training	0.2	0.2	0.4	0.0	0.0	0.8	0.3	0.3	0.4	0.0	0.0	1.0

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Other Offices (continued)
(\$ in millions)

	2000						2001					
	HEA Sec 458	FFEL	Prog Admn	CHAFL	HBCU	Total	HEA Sec 458	FFEL	Prog Admin	CHAFL	HBCU	Total
Goods/Service From Gov't	\$0.8	\$0.7	\$0.0	\$0.1	\$0.0	\$1.6	\$1.1	\$1.2	\$0.0	\$0.1	\$0.0	\$2.4
Oper./Main. Of Facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oper./Main. Of Equipment	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.2
ADP Contracts	5.8	1.8	0.0	0.0	0.0	7.6	6.2	2.0	0.0	0.0	0.0	8.2
Supplies	0.1	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.1	0.0	0.0	0.1
ADP Equip./ Software	0.5	0.3	0.4	0.0	0.0	1.2	0.9	0.6	0.3	0.0	0.0	1.8
Other Equip.	0.2	0.1	0.0	0.0	0.0	0.3	0.2	0.3	0.0	0.0	0.0	0.5
Building Alterations	0.1	0.1	0.0	0.0	0.0	0.2	1.1	0.9	0.3	0.0	0.0	2.3
Guaranty Agency AMF	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	50.5	10.2	21.4	0.7	0.2	83.0	53.2	12.3	22.3	0.7	0.2	88.7
FTE	32	0	230	6	1	269	32	0	230	6	1	269

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Account Totals (\$ in millions)

	2000						2001					
	HEA Sec 458	FFEL	Prog Admn	CHAFL	HBCU	Total	HEA Sec 458	FFEL	Prog Admin	CHAFL	HBCU	Total
Full-Time Permanent	\$37.1	\$22.8	\$34.4	\$0.4	\$0.1	\$94.8	\$37.7	\$24.0	\$36.2	\$0.4	\$0.10	\$98.4
Overtime	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.2
Awards	0.5	0.3	0.4	0.0	0.0	1.2	0.5	0.3	0.4	0.0	0.0	1.2
Benefits	8.1	5.2	7.5	0.1	0.0	20.9	8.8	5.6	8.0	0.1	0.0	22.5
Travel	3.5	0.7	1.6	0.0	0.0	5.8	3.7	0.7	1.7	0.0	0.0	6.1
Transportation	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.2
Rent to GSA	5.0	5.1	0.0	0.1	0.0	10.2	5.2	5.2	0.0	0.1	0.0	10.5
Communicat.	10.5	0.8	0.1	0.0	0.0	11.4	11.2	0.9	0.1	0.0	0.0	12.2
Postage	32.8	0.9	0.0	0.0	0.0	33.7	33.8	0.9	28.6	0.0	0.0	34.7
Printing	5.8	0.1	3.2	0.0	0.0	9.1	6.0	0.1	3.3	0.0	0.0	9.4
Advisory & Assistance	1.2	0.0	0.8	0.0	0.0	2.0	1.2	0.0	0.8	0.0	0.0	2.0
Other Services	9.2	0.9	3.2	0.0	0.1	13.4	10.8	1.3	1.6	0.0	0.1	13.8
Training	2.9	0.3	0.6	0.0	0.0	3.8	3.1	0.4	0.6	0.0	0.0	4.1

FEDERAL ADMINISTRATION OF POSTSECONDARY EDUCATION PROGRAMS

Obligations by Object Classification – Account Totals (continued)
(\$ in millions)

Q-21

	2000						2001					
	HEA Sec 458	FFEL	Prog Admn	CHAFL	HBCU	Total	HEA Sec 458	FFEL	Prog Admin	CHAFL	HBCU	Total
Goods/Service From Gov't	\$1.5	\$1.1	\$0.1	\$0.1	\$0.0	\$2.8	\$1.8	\$1.6	\$0.1	\$0.1	\$0.0	\$3.6
Oper./Main. Of Facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oper./Main. Of Equipment	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.2
ADP Contracts	415.8	9.1	26.0	0.0	0.0	450.9	462.4	5.6	27.4	0.0	0.0	495.4
Supplies	0.4	0.1	0.5	0.0	0.0	1.0	0.3	0.1	0.5	0.0	0.0	0.9
ADP Equip./ Software	1.2	0.4	0.7	0.0	0.0	2.3	1.9	0.7	0.6	0.0	0.0	3.2
Other Equip.	0.3	0.1	0.0	0.0	0.0	0.4	0.3	0.3	0.0	0.0	0.0	0.6
Building Alterations	19.1	0.1	0.0	0.0	0.0	19.2	11.2	0.1	0.0	0.0	0.0	11.2
Guaranty Agency AMF	<u>180.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>180.0</u>	<u>170.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>170.0</u>
Total	735.0	48.0	79.3	0.7	0.2	863.2	770.0	48.0	81.5	0.7	0.2	900.4
FTE	571	368	555	6	1	1501	571	368	555	6	1	1501

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FEDERAL FAMILY EDUCATION LOAN PROGRAM ACCOUNT

Divider Title: _____

Department of Education
FEDERAL FAMILY EDUCATION LOAN PROGRAM
Fiscal Year 2001 Budget Request

CONTENTS

	<u>Page</u>
Appropriations language	R-1
Amounts available for obligation.....	R-2
Obligations by object classification.....	R-3
Summary of changes.....	R-4
Authorizing legislation.....	R-6
Appropriations history	R-7
Activity:	
Federal administration	R-8

FEDERAL FAMILY EDUCATION LOAN PROGRAM ACCOUNT

For Federal administrative expenses to carry out guaranteed student loans authorized by title IV, part B, of the Higher Education Act, as amended, \$48,000,000. *(Department of Education Appropriations Act, 2000, as enacted by section 1000(a)(4) of the Consolidated Appropriations Act, 2000 (P. L. 106-113.)*

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Amounts Available for Obligation (\$000s)

	1999	2000	2001
<u>Current authority:</u>			
Annual appropriation	\$46,482	\$48,000	\$48,000
Real transfer from Y2K Contingent Emergency Fund	<u>794</u>	<u>0</u>	<u>0</u>
Subtotal, current authority	47,276	48,000	48,000
Unobligated balance, end of year	<u>-484</u>	<u>0</u>	<u>0</u>
Total, direct obligations	46,792	48,000	48,000

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Obligations by Object Classification (\$000s)

		1999	2000	2001	Changes from 2000 to 2001
11.10	Full-time permanent	\$19,937	\$22,816	\$24,099	\$1,283
11.3	Full-time temporary	268	0	0	0
11.32	Part-time	111	0	0	0
11.33	Consultants	35	0	0	0
11.51	Overtime	14	21	22	1
11.52	Awards	191	298	312	14
11.80	Other Compensation	0	0	0	0
	Compensation subtotal	<u>20,844</u>	<u>23,149</u>	<u>24,447</u>	<u>1,298</u>
12.00	Benefits	<u>4,613</u>	<u>5,179</u>	<u>5,589</u>	<u>410</u>
	Comp/benefits subtotal	25,457	28,328	30,036	1,708
21.00	Travel	376	686	671	-15
22.00	Transportation	0	16	53	37
23.10	Rent to GSA	2,260	5,056	5,217	161
23.31	Communications	621	757	879	122
23.32	Postage/fees	<u>668</u>	<u>864</u>	<u>900</u>	<u>36</u>
	Subtotal 23	3,549	6,677	6,996	319
24.00	Printing	58	53	121	68
25.10	Advisory and Assistance Svcs	25	0	0	0
25.21	Other Services	737	941	1,268	327
25.22	Training	98	244	393	149
25.30	Goods/Services from Gov't	668	1,134	1,614	480
25.71	Operations/Maint of Equipment	23	32	134	102
25.72	ADP Services/Contracts	<u>14,314</u>	<u>9,122</u>	<u>5,573</u>	<u>-3,549</u>
	Subtotal 25	15,865	11,473	8,982	-2,491
26.00	Supplies	165	94	90	-4
31.10	ADP Equipment/Software	527	423	709	286
31.30	Other Equipment	<u>207</u>	<u>125</u>	<u>274</u>	<u>149</u>
	Subtotal 31	734	548	983	435
32.00	Building Alterations/Repair	<u>586</u>	<u>125</u>	<u>68</u>	<u>-57</u>
	Total Obligations	46,792	48,000	48,000	0

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Summary of Changes (\$000s)

2000	\$48,000
2001	<u>48,000</u>
Net change	0

	<u>2000 base</u>	<u>Change from base</u>
<u>Increases:</u>		
<u>Built in:</u>		
Increase in personnel compensation for annualization of 2000 pay raise and proposed 4.8 percent 2001 pay raise	\$23,149	+\$1,298
Increase in benefits for the Department's share of health, retirement, and other benefits	5,179	+410
<u>Program:</u>		
Increase in equipment and operations/ maintenance of equipment to support planned computer system upgrades	580	+537
Increase in goods/services from government due to debt collection enhancements	1,134	+480
Increase in other services to support a range of employee support activities, including enhanced training for regional staff	941	+327
Increase in rent to reflect revised estimate of actual space usage	5,056	+161
Increase in training due to planned system upgrades and technical improvements	244	+149
Increase in communications due to case management gatekeeping activities	757	+122

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Summary of Changes--Continued (\$000s)

	<u>2000 base</u>	<u>Change from base</u>
Increase in printing due to customer service and debt collection enhancements	\$53	+\$68
Increase in transportation of things due to relocation of materials and equipment	16	+37
Increase in postage to reflect additional FFEL debt collection activities	864	<u>+36</u>
Subtotal, increases		+3,625
<u>Decreases:</u>		
<u>Program:</u>		
Decrease in automated data processing contracts due to reduction in FFEL account spending on application processing contracts	9,122	-3,549
Decrease in building alterations due to expected completion of improvements in headquarters space	125	-57
Decrease in travel due to automation of case management gatekeeping activities	686	-15
Decrease in supplies due to reduction in anticipated usage	94	<u>-4</u>
Subtotal, decreases		-3,625
Net change		0

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Authorizing Legislation (\$000s)

Activity	2000 Authorized	2000 Estimate	2001 Authorized	2001 Request
Federal administration (<i>Federal Credit Reform Act of 1990, section 505(e)</i>)	Indefinite	\$48,000	Indefinite	\$48,000
Total definite authorization	-----		-----	
Total appropriation		48,000		48,000

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Appropriations History (\$000s)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
1992 Mandatory	\$2,820,247	\$2,907,765	\$2,907,765	\$2,608,132
1992 Discretionary	46,433	45,933	39,439	43,870
1993 Mandatory	2,773,275	2,773,275	2,773,275	2,709,750
1993 Discretionary	65,000	64,350	60,324	60,487
1994 Discretionary	72,466	72,466	72,466	69,966
1995 Discretionary	64,191	62,191	62,191	62,191
1995 Rescission	0	0	0	-95
1996 Discretionary	30,066	30,066	30,066	30,066
1996 Rescission	0	0	0	-89
1997 Discretionary	46,572	29,977	29,977 ¹	46,482
1998 Discretionary	47,688	47,688	46,482	46,482
1999 Discretionary	48,482	48,482	46,482	46,482
2000 Discretionary	48,000	46,482	48,000	48,000
2001 Discretionary	48,000			

NOTE: For FY 1992 and 1993, mandatory program costs for new loan subsidies and mandatory administrative expenses were classified as current indefinite authority. Beginning in FY 1994, these costs are classified as permanent mandatory authority and as such do not require congressional appropriations action.

¹ Reflects Senate Committee action.

FEDERAL FAMILY EDUCATION LOAN PROGRAM

Federal administration

(Federal Credit Reform Act of 1990, section 505(e))

2001 Authorization (\$000s): Indefinite

Budget authority (\$000s):

	<u>2000</u>	<u>2001</u>	<u>Change</u>
Personnel costs	\$28,328	\$30,036	+\$1,708
Non-personnel costs	<u>19,672</u>	<u>17,964</u>	<u>-1,708</u>
Total	48,000	48,000	0
FTE employees	368	368	0

PROGRAM DESCRIPTION

Funds in this discretionary account are exclusively associated with activities integral to the Federal Family Education Loan (FFEL) program, such as guaranty agency and lender oversight, the processing and payment of lender interest subsidies and guaranty agency default claims, or the payment of guaranty agency administrative allowances. Other administrative costs for FFEL loans are paid out of the two other funding sources that support student aid management: 1) funds appropriated on a permanent basis under Section 458 of the Higher Education Act (HEA); and 2) the Department's general Program Administration account.

Federal administration costs include staff salaries and benefits and administrative activities, and overhead services, including travel, rent, and payroll processing for support of the FFEL program staff. Other major non-personnel costs are for contracts for claims processing, data services, and debt collection.

Funding levels for the past 5 fiscal years were as follows:

	(\$000s)
1996	\$29,977
1997	46,482
1998	46,482
1999	47,276
2000	48,000

FEDERAL FAMILY EDUCATION LOAN PROGRAM

FY 2001 BUDGET REQUEST

The 2001 budget request includes \$48 million, the same as the 2000 appropriation. The request covers personnel compensation and benefits costs for 368 FTE and portions of ADP contracts including the Stafford/Perkins data services, central processing system, multiple data entry, and public inquiry contracts.

For presentation purposes, Federal administrative costs and FTE financed by the Federal Family Education Loan Program account are included in the total costs discussed in the justification materials in the Federal Administration of Postsecondary Education Programs overview.