

DRAFT

National Service Trust Fund Act of 1993

"Give every American the right to borrow money for college by maintaining the Pell grant program, scrapping the existing student loan program, and establishing a National Service Trust Fund. Those who borrow from the fund will be able to choose how to repay the balance: either as a small percentage of their earnings over time, or by serving their communities doing work their country needs."

--Putting People First

Purposes

The purposes of the National Service Trust Fund Act are:

- to inspire in all Americans a new commitment to serving their country, their communities, and their fellow citizens;
- to provide access to higher education and job training for all young Americans, regardless of their economic background;
- to enable students to finance their education and job training by working in national and community service activities; and,
- to allow students to repay their loans as a percentage of their income and to consolidate and simplify the Federal student loan programs.

National and Community Service

The Act establishes a National Service Trust Fund, administered by the Commission on National and Community Service, to provide education benefits -- in the form of scholarships, student loan forgiveness, or job training -- to those who perform qualified national service. For each one-year term of full-time service or three-year term of part-time service, participants will receive benefits worth \$5,000. Participants may serve up to two terms, for a total of \$10,000 in benefits.

Qualified national service includes service in the areas of education, environmental protection, human services, and public safety, such as VISTA and the Peace Corps, and:

- **Conservation Corps**, ^{engaged in activities} such as rehabilitation and improvement of wildlife habitat, road maintenance, and energy conservation projects.
- **Youth Corps**, serving in nursing homes, child and adult day care centers, law enforcement agencies, and other government agencies.

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- **Pre-Professional Corps**, offering training and placement of teachers, police officers, nurses, child care workers, service-learning coordinators, or other professionals.

- **Model National Service Programs** funded by the Commission to promote innovation and experimentation in national service.

- **Public Interest Entrepreneurs**, ^{presenting exemplary} to support individual proposals for community ~~and national~~ service ~~projects~~.

- **Employment in hard-to-fill public service jobs**, such as teachers in high-poverty schools, Head Start staff, or nurses in community health centers.

The Commission will establish criteria for states to use in designating qualifying service positions. Positions will be listed in a national database, and the sponsoring organization will select the participants. Participation will be open to individuals before or after college, ~~or by~~ non-college bound youth, based on the needs of the qualifying program. To expand the number of national service placements available, additional funding for service programs sponsored by states, institutions of higher education, and public or private non-profit organizations will be made available through the National and Community Service Act.

Income-Contingent Repayment to Encourage Service

The Act establishes a program that will allow students to repay their loans as a percentage of their income over time. This will enable graduates to choose **public service professions** or to devote a few years to **national service**, instead of being forced into higher-paying jobs because of their student debt burden. The Secretary of Education will establish the repayment formula and mechanism through the Internal Revenue Service or another entity.

College Opportunity

- **Student Loans.** The National Service Trust Fund Act ensures that any American can afford to go to college through a simplified student loan program. In addition to Pell Grants and other aid already available, the new program will offer loans to cover tuition, supplies, room and board up to:

	Dependent <u>Students</u>	Independent <u>Students</u>
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergraduate years	\$5,500	\$10,500
Graduate students	n/a	\$18,500

Parents of dependent students may borrow additional funds up to the cost of attending the college. Dependent students may borrow a total of \$23,000; independent students may borrow up to \$46,000 as undergraduates and up to \$138,500 as graduate students. For low- and middle-income students, the government will

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continue to pay all or part of the interest on loans while the students are in school.

- **A New System.** The Act doubles the size of a test program that provides loans to students directly through schools instead of through the complex guarantee system. This expansion will save taxpayers an estimated \$--- million over five years. The Secretary of Education is authorized to expand the program further if it is successful, saving up to \$1 billion a year.

--**DRAFT** January 21, 1993

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January 21, 1993

NATIONAL SERVICE TRUST FUND ACT.

Short Title: National Service Trust Fund Act of 1993.

TITLE I. Purposes. The purposes of this Act are:

- to inspire in all Americans a new commitment to serving their country, their communities, and their fellow citizens;
- to provide access to higher education and job training for all young Americans, regardless of their economic background;
- to enable students to finance their education and job training by working in national and community service activities; and,
- to allow students to repay their loans as a percentage of their income and to consolidate and simplify the Federal student loan programs.

TITLE II. Amendments to the National and Community Service Act of 1990.

Part A: Creation of the National Service Trust Fund

The National and Community Service Act of 1990 is amended by adding the following new subtitle:

"Subtitle __. National Service Trust Fund.

There is created a National Service Trust Fund to provide educational benefits to participants performing qualified national service.

A. Eligibility of Individuals. Participants shall be eligible to receive educational benefits from the National Service Trust Fund if they:

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--are a citizen of the United States or lawfully admitted for permanent residence;

--are an out-of-school youth or graduated from an institution of higher education in the previous two years; and

--are accepted into and serve for a term defined in section C in a qualified national service placement.

B. Term of Service. Participants shall serve:

--in the case of full-time service of not less than 40 hours per week, for a period of not less than nine months;

--in the case of part-time service of more than an average of [nine?] hours a week for a period of not less than three years.

C. Qualified National Service. Individuals shall serve in positions meeting educational, human service, environmental or public safety needs. As provided in section I, states or the Commission on National and Community Service may designate any of the following as qualified national service:

--service as a VISTA volunteer;

--service in the Peace Corps;

-- service in programs funded under parts C, D, or sections 6 and 7 of part E of this Act;

--service in programs comparable to those funded under parts C, D, or sections 6 and 7 of part E of this Act that meet quality criteria established by the Commission;

--in the case of an individual who has completed one term of qualified national service, service on the staff of a qualified

national service program;

--service as a service-learning coordinator in a program eligible for funding under subtitle B of this Act; and,

~~--service in positions determined by the Commission or the state~~ ^{in employer-supported positions,} which provide health insurance to participants and which:

--meet human, educational, environmental or public safety needs; and,

--have been vacant for not less than [twelve months] and are unlikely to be filled in the next [six months] due to a shortage of qualified applicants; OR

--are located in an [urban or rural enterprise zone].

D. National Database. Qualified national service positions shall be listed in a national computerized database, accessible through college and high school placement offices, employment service centers, volunteer centers, and other entities.

E. Selection of Participants. Organizations sponsoring qualified national service positions shall select individuals to serve in such positions.

F. Educational Benefits. Participants successfully completing a term of qualified national service shall receive a certificate worth \$5,000 in educational benefits for each such term, up to two terms. Educational benefits may be used for:

--repayment of a qualified federal student loan;

--payment of tuition, fees, room and board at an institution of higher education; or

--employment training, including apprenticeship.

G. Remittance of Certificates. The Commission shall remit a payment to eligible entities presenting ~~completed~~ ^{completed} certificates. A completed certificate shall include a statement, signed by the participant and the eligible entity under penalty of perjury, declaring ~~that the funds are being used for the purposes intended,~~ and may include supporting documentation as required by the Commission. An eligible entity is the holder of a loan described in F (below), an institution of higher education (as defined in the Higher Education Act, section --), or any other entity approved by the Commission.

from the
Trust
Fund

~~compliance~~
compliance
with the terms
of this Act

H. Qualified Federal Student Loan. A qualified federal student loan is any loan issued or insured by the federal government under Title IV of the Higher Education Act or Title VII of the Public Health Service Act.

I. Designation of Qualified National Service Positions. ~~From funding authority appropriated pursuant to part L, the Commission shall allocate the authority to designate positions eligible for the education benefits certificate described in part F. Authority to designate the recipients of certificates shall be allocated as follows:~~ ^{funds} ~~the authority to designate~~ ^{of positions shall be given} ~~qualified national service positions~~

^{the authority to designate} --[not less than one-third] to qualified states based on [population];

^{the authority to designate} --[up to one-third] to qualified states on a competitive basis; and ^{of positions shall be awarded}

~~positions shall be designated by the Commission or delegated~~ ^{positions shall be designated by the Commission or delegated} --[not less than one-third] ~~directly~~ to public or private nonprofit organizations providing qualified national service opportunities.

This doesn't
make
sense

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Such states and organizations shall use criteria established by the Commission in designating positions ~~offering education benefits~~ ~~certificates.~~ *qualified national service*

J. Qualified States. For a state to be eligible to designate positions under part I:

--the chief executive officer of such state shall designate a state lead agency responsible for administering the program;

--the state shall have in place a state National Service Commission described in section 178;

--the state lead agency shall submit a plan, approved by the state Community Service Commission, specifying proposed qualified national service positions within the state, describing a system for ensuring compliance with this subtitle, describing how the state will make child care available for children of participants to the maximum extent practicable, and describing how such positions will be coordinated with other service initiatives within the state; and

--the state shall arrange group activities for participants and make other efforts designed to promote the ethic of service.

K. Commission on National and Community Service. The Commission on National and Community Service shall administer the National Service Trust Fund. The Commission shall:

--in consultation with experts in the field of national service, establish criteria for qualified national service opportunities;

--monitor compliance with the provisions of this subtitle;

--arrange for the national database described in section D;

--arrange for a national visibility campaign promoting a national service ethic and participation ~~and~~ national service

in

--provide a national training curriculum for participants to foster a national program identity;

--facilitate the creation of an alumni network of national service participants;

--coordinate this subtitle with other provisions of the Act; *and*

--provide training and technical assistance to states and programs offering qualified national service positions;

L. Authorization of Appropriations. There are authorized to be appropriated:

--to provide education benefits described in section F, [\$X00 million], which shall remain available until expended; and,

--to carry out other activities described in this subtitle, and to administer the National Service Trust Fund, [\$X million]. »

Part B: Reauthorization and Expansion of the National and Community Service Act.

The National and Community Service Act of 1990 is amended to:

--continue and expand the funding authorization for the Youth Service and Conservation Corps, Serve America, and Model National Service Programs; and,

--add new authority for a Pre-Professional Corps and Public Interest Entrepreneurs.

*American
Higher Education
Innovative
projects*

TITLE III. Federal Family Education Loans.

Section 428A of the Higher Education Act is amended as follows:

A. Establishment of New Loan Program. There is established one federal student loan program to ensure that all students have access to the financial resources to attend college.

B. Loan Limits. Full-time students are entitled to borrow the following amounts annually (students attending part-time or in short-term programs will have lower limits):

	Dependent <u>Students</u>	Independent <u>Students</u>
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergrad years	\$5,500	\$10,500
Aggregate undergrad limit	\$23,000	\$46,000
Graduate	n/a	\$18,500
Aggregate graduate limit	n/a	\$138,500

No student may receive more financial aid from the federal programs than the amount needed to cover the cost of attendance.

C. Repeal of Existing Programs. [The new program incorporates eligibility from Stafford, SLS, and the unsubsidized program].

D. Universal Eligibility. No student shall be denied a loan based on either personal or family income.

E. In-school interest subsidy. Section 428 of the Higher Education Act is amended to provide for a federal interest subsidy for financially needy students, as identified under the needs analysis provisions in section _____. The subsidy would apply to that portion of their loan for which they are eligible, up to a maximum of \$2,625 in the first year, \$3,500 in the second year, \$5,500 in the remaining undergraduate years, and \$8,500 in the graduate years. [Deferral

benefits must also be included].

F. Interest rate. Section 427 is amended such that the interest rate on the loans shall be equal to the 91-day Treasury bills plus 3.1 percent, with a maximum of 9 percent. (The current SLS maximum is 11 percent, so this is a better deal for students).

G. Origination Fee. Borrowers under the federal student loan program shall be charged an origination fee equal to ___ percent of the loan principal. [The level of the fee must be determined based on cost estimates of the overall program -- current origination fee levels on federal student loans are either 5 or 6.5 percent.]

H. Guarantee Fee. Guarantee agencies may charge borrowers a fee as permitted under section ____.

I. Loan Consolidation. Loans made under this program shall be eligible for student loan consolidation as under current law, to simplify repayment for borrowers.

TITLE IV. Establishment of Income-Contingent Repayment Option.
(Expansion of §437A on the Higher Education Amendments of 1992).

A. Purpose. It is the purpose of this section to

- establish a program that will allow student borrowers to repay their loans as a percentage of their income over time;

- allow the Secretary to identify and implement other measures to encourage borrowers not participating in the National Service Trust Fund programs to enter into low-paying public service work.

B. Authorization. The Secretary shall establish a program allowing student borrowers under this part or part D to choose to repay their loans on an income-contingent basis. The Secretary is authorized to:

(1) acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who submit a request for income-contingent repayment; and,

(2) to enter into contracts or arrangements with private firms or other agencies of the Government to carry out the purposes of this section.

C. Regulations. The Secretary shall establish the terms and conditions for the income contingent repayment program. The regulations shall:

(1) specify the schedules under which income will be assessed for repayment of loans;

(2) provide for the discharge of any remaining obligation after the borrower has been in repayment status (non-student status) for not more than 25 years; and,

(3) establish other terms and conditions as may be necessary.

[This provides the Secretary with maximum flexibility to address issues such as types of borrowers who can participate (new borrowers, new loans, old borrowers, graduate, etc.); when borrowers opt for the program (and the opt-out procedure, if any); the definition of income (and provisions to protect against hiding of income); the assessment of income (including whether there is an adjustment to reduce negative amortization for lower income borrowers and/or a surcharge for higher income borrowers, and how married couples are treated); etc.].

D. Community Service Incentives. The Secretary, in cooperation with the Commission on National and Community Service, may establish alternative terms, conditions, and discharge provisions to

encourage borrowers to participate in low-paying public service work.

[This permits the Secretary to establish loan forgiveness and/or interest deferral provisions other than those provided for in the income-contingent repayment formula to help borrowers who engage in a particular type of work. For example, the Secretary could pay the interest costs for anyone making less than \$10,000 and working for a charitable corporation providing direct services to low-income or disabled individuals.

E. National Service Loan Forgiveness. To facilitate loan forgiveness under [section ___ of the National and Community Service Act, as amended above], the Secretary of Education is authorized to acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who are engaging in national and community service activities pursuant to [the National Service Trust Fund]. If the participant has loan amounts remaining, or fails to complete the service, the Secretary shall assign the loan to a servicer to resume repayment.

F. Authorization of Appropriation. There are authorized to be appropriated funds for the purchase of loans on behalf of students who will engage in national service and to cover any additional costs associated with part D (Community Service Incentives).

V. Expansion of Direct Lending Demonstration Program.
(§451 of the Higher Education Amendments of 1992 et. seq.)

A. 500 schools. Section ___ is amended to require the Secretary to enter into agreements with not fewer than 400 nor more than 500 institutions of higher education to participate in the direct loan demonstration program. Further amend to allow the program to begin with some schools as early as July 1993.

B. Expansion. After the first year, the Secretary may increase the

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number of institutions participating in the program, if the Secretary determines that the Federal government has the administrative capacity to do so.

C. Guaranty Agency protections. Section 453 (e) should be deleted and replaced with two new provisions.

(1) The Secretary shall assure that no guaranty agency's administrative cost allowance (ACA) will be reduced by more than 15% of its level for fiscal year 1992; and,

(2) The Secretary may, for any guarantee agency with a substantial volume of loans under the direct loan demonstration program, reimburse agencies based on a percentage of outstanding loans guaranteed by the agency, rather than 1% of the new loans guaranteed by the agency. (The Secretary may determine the percentage that would be appropriate).

[Current law requires the Secretary to choose schools so as not to reduce the volume of new loans at any guaranty agency by more than 15 percent, and to determine that all affected guaranty agencies "will remain financially sound." This provision places the Secretary in the position of publicly declaring some agencies financially troubled.]

D. Default Reduction. Reduce Federal reinsurance to guaranty agencies by 3 percentage points for every percent of defaults above 2.5%. [Currently, there is a "cliff" of sorts when the default rate reaches 10 percent and the reinsurance rate is reduced to X%. This would instead encourage constant effort to reduce defaults, to counter the incentive created by the bounty on already-defaulted loans.]

TITLE VI. Amendments to the Domestic Volunteer Service Act and to the Peace Corps Act. [If necessary].

Bill G

Challenging or matching
budget in

Use of post-service benefit
structure issue
rel to ACTION

how much of broader array of federal
service activities brought together

Non displacement
2 new high school subsidies

~~administrative costs to schools, universities~~
Innovative use of other federal funds

Robert

Amount 7 Post-service benefit
cost per component
20,000 benefit
shared benefit - h.c.
program cost - c.c.

gov't pay for only part
benefit - security down but they
- service providing

Federal agencies seek
grants

National Espionage Corps

NATIONAL SERVICE

"We never create energy; we only release it."

—Peter Drucker

National service was perhaps the signature idea of your campaign. No proposal evoked wider or more enthusiastic reaction than linking national service to broadened access to education, training, and opportunity. In *Putting People First*, you proposed to:

Maintain the Pell grant program, scrap the existing student loan program, and establish a National Service Trust Fund to guarantee every American who wants a college education the means to obtain one. Those who borrow from the Fund will pay it back either as a small percentage of their income over time, or through community service as teachers, law enforcement officers, health care workers, or peer counselors helping kids stay off drugs and in school.

As you envision it, national service would simultaneously broaden opportunity for education, training, and economic empowerment, emphasize individual responsibility to give something back for this increased opportunity, and build community by bringing people together to address urgent national needs. In the process, national service can revitalize the civic spirit without which our democracy cannot flourish.

This last point deserves special emphasis. Through national service, we seek nothing less than to transform our society—renewing the link between responsibilities and rights and leavening individual freedoms with the understanding that in the long run we rise or fall together. We hear much today about social diversity, and, appropriately, we celebrate it. But we also need civic unity, and national service can help provide it. As we learned during the public programs of the New Deal, in World War II, and in every great national endeavor, the surest basis of community is shared experience. By bringing us together across racial, ethnic and class lines, national service can provide such an experience, making our differences a source of strength rather than division.

Creating a new national service program is also a prime opportunity to reinvent government. Whenever possible, our system should employ incentives rather than commands and regulations, invest in good management, build on success, and draw on grassroots energy and initiative.

This chapter explores how to turn this popular concept into a concrete program and lays out options for you in a handful of key areas. The early sections of this chapter focus on options and recommendations for a national service system; the later sections discuss technical and policy issues regarding student loans.

POLITICAL BACKGROUND

Any proposal for national service/universal education access will spark intense debate in Congress and among the American people. The discussion will take place against the backdrop of the recent debate over the Nunn-McCurdy national service bill that began early in 1989 and lasted for more than a year.

History makes clear that the more radically a national service/universal access bill departs from the status quo, the more those with an interest in the status quo will seek to thwart change. This is especially true for the structure and conditions of higher education finance, but also for the scope and shape of service opportunities. Building broad support for the fundamental changes you have proposed will require difficult assessments of what is truly feasible given current circumstances.

Significant changes have taken place since 1989. The provisions of the Nunn-McCurdy bill that stirred the greatest controversy – eliminating Pell grants and moving swiftly to make service a condition for all types of student assistance – are not under consideration. Also, some of your proposals, including direct lending demonstrations, income-contingent repayment, authorization for IRS involvement in collection, and universal (albeit unsubsidized) loan availability were included in the 1992 Higher Education Reauthorization amendments.

At the same time, several key participants in the debate have shifted toward common ground. The higher education community is prepared to acknowledge that service can be a basis for differential benefits – that those who serve should get more than those who don't. And the service community is prepared to acknowledge that the prime (though not exclusive) focus of new initiatives for 1993 can be full-time, compensated service extending over a considerable length of time. In short, circumstances may have created a promising foundation for meaningful consensus, a foundation on which energetic, skillful presidential leadership can build to resolve remaining differences.

Still, significant problems remain. Public employee unions are skittish at best about a significant national service program, as are the principal teachers unions. Banks, state-based guarantee organizations, and the Student Loan Marketing Association (Sallie Mae) are hostile to a significant expansion of direct loans. As Senator Nunn points out, the views of the Armed Services are still important, though the winding down of the Cold War may have made them somewhat less worried about the impact of civilian service on military recruitment.

The bottom line is that while we have made every effort to consult widely and take divergent views into account, we will need to organize extensive further consultations on whatever draft service/loan program you endorse as the basis for public discussion.

One final point: Across the political spectrum, those with whom we consulted warned fervently against repeating the fiascoes of programs of the 1960s, and of public sector jobs programs of the late 1970s. National service must be (and be seen to be) meaningful work (rather than make-work) meeting true public needs (rather than controversial advocacy causes). While these considerations argue for significant central oversight in the selection and monitoring of service that qualifies under the program, the need for serious quality control must be balanced by the need to maximize local energy, innovation, and public entrepreneurship.

EXISTING PROGRAMS

The Clinton national service proposals will not be painting on a blank canvas. Existing programs, federal and non-federal, can help provide the foundation for a national service system. Federal programs include:

The National and Community Service Act (NCSA). This landmark legislation, initiated by Senate Democrats and enacted in 1990, funds full- and part-time service programs run by schools, colleges, local and state government, and non-profit organizations. The Act also includes funding for programs that may serve as models for large-scale national service.

VISTA. Established as a Great Society program in the 1960s, VISTA currently engages more than 3,000 adults in full-time service through community-based organizations each year.

Peace Corps. The hallmark of the Kennedy Administration, the Peace Corps currently supports 6,000 adults in service to developing countries and fledgling democracies around the world.

Older American Volunteer Programs. Created in the 1960s and early 1970s, the OAVP programs include Foster Grandparents, Senior Companions, and the Retired Senior Volunteer Program.

Non-federal programs, many of which are supported by the NCSA, include:

State and Local Youth Corps. Based on the Civilian Conservation Corps of the 1930s, youth corps have made a comeback in the last decade, providing full-time and summer service opportunities for more than 25,000 youth aged 15 to 24 each year.

School- and Campus-based Programs. During the 1980s and 1990s, schools and colleges across the country greatly expanded programs for millions of students to become engaged in service as part of the educational process or through

extracurricular activities.

Programs Run by Youth Organizations. Community-based youth organizations, such as YMCAs, Girl Scouts, and 4-H, provide significant service opportunities for school-age youth after school and during the summer.

National, regional, and state non-profit organizations have provided technical support and leadership to the national and community service field over the last decade and should be an important resource for the Clinton National Service system.

A NEW NATIONAL SERVICE SYSTEM: OPTIONS AND PROPOSALS

In the following pages, we lay out the basic questions that will shape your national service proposal. We recommend a system that encourages flexibility and innovation, and gives young people who want to serve their country as many choices as possible: a program which is open to pre-college, post-college, and non-college-bound youth; which lets people serve in local, state or national corps, non-profits, or other positions that do not displace workers but do meet unmet public needs; and which is as decentralized as it can be without running amok. We believe the program should give those who serve an opportunity voucher worth \$10,000 per year of service and a small stipend on which to live. We suggest expanding the program gradually to 100,000 slots by 1996, which will cost approximately \$2 billion at that level.

This section focuses on decisions needed to implement the national service system.

Who is eligible?

We recommend three categories of eligible participants:

1) **Post-college:** Any individual who has taken out either a subsidized or unsubsidized student loan may seek a service placement qualifying for loan forgiveness (and in some cases other opportunities, discussed below). Based on the existing loan programs, this would include students at community colleges, four-year colleges, and trade schools (proprietary schools).

2) **Pre-college:** Any young person who meets the entrance requirements for and obtains a placement in an eligible program may earn an Opportunity Voucher (a term we use to signify "service-related benefits") equal to the amount of loan forgiveness and other benefits provided to post-college participants.

3) **Non-college:** Because non-college-bound youth can make an important contribution to meeting national needs, they should be allowed to participate on equal terms with pre-college youth and have an equal chance to earn Opportunity Vouchers. The program will ultimately help some members of this group go on to higher education and training; others will gain skills that will help them obtain future employment; still others will be able to make entrepreneurial investments in their own future. We recommend that a high school diploma or the equivalent be required in order to "graduate" from the program, but not to enroll.

Sen. Nunn and others have suggested that the post-college participants would have to be matched with clearly defined professional needs in areas such as education, health, and public safety. Others have noted that high school non-graduates present special challenges of administration, supervision, and program design that increase both costs and risks. Taken together, these points suggest that most of the participants (say, 80 percent) should be at least high school graduates and that a relatively small fraction (say, no more than 25 percent) would fall into the post-college category.

What types of service will qualify participants for Opportunity Vouchers?

We recommend that all of the types of service discussed below be supported through the Trust Fund, at least on a test basis, and qualify participants for Opportunity Vouchers. This system will allow for experimentation, optimum matching of participants with service opportunities, and maximize the program's chances for success in future years.

Youth Corps

Although funded primarily by state or local sources, Youth Corps programs also receive federal support from the American Conservation and Youth Service Corps and national service demonstration programs of the National and Community Service Act. Most corps programs are structured to promote *esprit de corps* by organizing participants into supervised crews. However, some place participants in individual assignments, bringing them together for joint education or other activities. While most existing corps programs involve economically and educationally disadvantaged youth, some strive for greater diversity, which we see as critical to achieving important national objectives.

Youth corps have attracted widespread support for several reasons:

- their proven success with disadvantaged populations;
- ancillary benefits such as increased educational attainment, jobs skills development, self-esteem, cooperation, teamwork, and community-building;
- the opportunity for leadership development for participants within the corps structure;

- their ability to meet local needs while generating local support.

The added benefits, attention to supervision, and support services, however, mean that corps programs tend to be relatively expensive (as much as \$10,000 per participant, exclusive of stipend and loan forgiveness).

This year, Congress enacted legislation for a federally run corps, which, unlike a federally supported state or local program, requires hiring significant numbers of new federal employees. A federal corps, however, highlights national service as a Clinton "signature" program, and could target urgent national needs highlighted by the President. The CCC's success in the 1930s is invoked regularly (and plausibly) as a baseline for service in the 1990s. It is surely a model worth testing—provided the federally run program does not dwarf state and local efforts.

In addition to federally-run and federally-supported corps, state and local corps receiving no federal funds could qualify to provide Opportunity Vouchers so long as they meet the corps standards authorized under the National and Community Service Act.

Individual Placements with Non-Profit or Other Direct Service Organizations

A second service option is the placement of individual participants in programs run by federal, state, local government or non-profit organizations. The primary difference from the corps model is that participants do not work together as teams on projects. The program would provide participants with stipends, place them in service positions, and could offer special activities such as training, regular meetings, or other group functions. This model works best where host organizations need additional staff but lack the resources to pay additional full-time workers.

An example of this type of program is VISTA. Non-profit direct service organizations seeking a VISTA volunteer apply through their federal regional ACTION office. Volunteers may be recruited in two ways: nationally, with an 800 number and national placement bank, and locally, by the organization approved for a VISTA slot. The administrative cost of this system is about \$6,000 per placement. VISTA volunteers receive a living allowance of about \$7,000 a year plus health insurance and training from the federal government.

A private, non-profit organization could also recruit, train, and place participants with other non-profit agencies — sort of a private-sector VISTA. The federal government might make a grant to the placement organization to cover a share of administrative expenses and provide stipends (or a portion of the stipend) and health insurance for the participants.

Alternatively, individual public and private non-profit organizations could create placements that meet federal criteria. Such organizations might pay the full cost of the

stipend and health insurance and absorb their own administrative costs. The cost to the federal government other than loan forgiveness would be marginal. However, it is unclear how many such jobs would be created, even at below market wages, if the full costs had to be borne by the host organization.

A final model would involve placing post-college participants in schools to serve as youth service coordinators. These individuals would assist teachers in organizing service-learning programs, through which elementary and secondary school students would perform service as part of their education. Such a program could significantly expand the number of schools providing service opportunities to younger students. It could also be extended to college campuses and community based youth organizations.

Individual Placements in Regular Jobs Supported by Employers

In this model, which is most appropriate for post-college participants, the government sets criteria for jobs qualifying for Opportunity Vouchers. Salaries, benefits and costs of training and supervision are borne by the employer. Positions may be existing jobs that are hard to fill or new positions created by the sponsor. The participant and sponsor must certify that they have met the requirements for the loan discharge. These could include:

- income ceilings
- work in a specific field or for a specific type of employer (such as a non-profit organization or a state or local governmental agency)
- jobs in certain locations (such as enterprise zones)
- hard to fill positions where there is a shortage of qualified and willing candidates.

Several variations on this theme are worth considering. Although generally participants would locate their own job placements, state or local government or non-profit organizations could establish programs to place qualified individuals with employers and provide recruitment, training and a support system, as in a corps program. Salaries or stipends would, however, still be paid by the employer. This model works best where there is a shortage of qualified individuals available to fill a position that is already funded. Teach for America, which recruits, trains, and places recent college graduates in teaching positions, and Public Allies, which recruits, trains, and places young adults in community jobs with non-profit organizations, both at a cost of approximately \$6,000 per placement, are examples of non-stipend programs.

Another model is based on the ROTC system. Certain types of jobs, such as public safety work, nursing, child care, or teaching may require specialized training that

could be obtained during college. Individuals could be enticed into these fields during their first or second year of college with the promise of scholarships or enhanced loan forgiveness. They would agree to take a specified curriculum to prepare them for their specific career, to perform internships or other forms of service to supplement their classroom learning during the school year and over the summer, and work in their specified field for a minimum number of years after graduation. The proposed Police Corps is an example of this model, although for technical reasons it would probably fall outside the scope of the National Service Trust Fund (see the Crime chapter).

This model has many advantages. Salaries do not have to be paid by the federal government, thereby lowering the per placement cost. Administrative costs are also lower than under other program options. Large numbers of individuals may participate if they are able to find suitable qualifying employers. Such a program can help fill jobs in geographic areas (remote rural communities, urban enterprise zones) or career fields where it is difficult to find willing and qualified workers. By using programs to place individuals (as in the Teach for America and ROTC models described above), many of the benefits of corps-type service can be realized.

This model has some drawbacks as well. It is effective if there is a shortage of workers in a particular profession or jurisdiction, but not if there is a shortage of funds to pay those workers. It is difficult to design a list of qualifying jobs that does not create inequities by excluding similar jobs or that would not, if implemented on a large scale, create incentives for individuals to leave one type of socially useful employer for another that qualifies. If qualifying jobs are limited by salary, the program may depress wages for other workers. If a programmatic approach is taken, it may be unfair to reward with loan cancellation a participant in, for example, Teach for America, but not the comparable teacher down the hall. There is also significant potential for fraud and abuse without significant federal oversight of placements. There would need to be strict job nondisplacement requirements and a regulatory system to approve placements.

Public Service Entrepreneurs

A limited number of particularly talented young people may seek to design their own placements — perhaps starting new organizations, conducting independent projects, or filling needs in their community that they themselves identify. This model fosters innovation and allows talented youth to put their best ideas into practice. These individuals should be supported because they hold particular promise as future leaders.

On the other hand, a significant risk of fraud and abuse is inherent in this model. Young entrepreneurs may need to be supported through a programmatic structure that provides advice and technical assistance. For reasons of risk and administrative cost, only a limited number of placements should be made in this category.

Must service be full-time? Would part-time service qualify?

While most qualifying slots would be full-time, part-time programs should also be eligible, particularly to accommodate non-traditional older students whose family responsibilities may otherwise preclude them from opting for service. (While an analogy is often drawn between full-time service and the GI bill, part-time service might be seen as a civilian version of the military National Guard/Reserve structure.) Benefits earned would be scaled to the fraction of full-time service performed, with some minimum threshold (say, one-sixth time, the equivalent of two full months) each year. The National and Community Service Act already supports several model part-time programs in which participants receive education scholarships or loan forgiveness in exchange for a minimum number of hours of service.

Will the system be decentralized or will it be run by the federal government?

We recommend that the National Service system be decentralized, with important roles played by national non-profit organizations and state and local programs. While a federally-run system might provide a common experience for all participants, its disadvantages include: a large federal bureaucracy; interference with state and local efforts to build community-based programs; high costs; impediments to flexibility and innovation; and lack of community control. By contrast, a well-designed decentralized system would encourage public/private partnerships, leverage federal dollars with those from state and local sources, build on expertise within the field, enable young people with diverse needs and interests to be matched with optimum placements, minimize federal bureaucracy, allow the local community to take the lead in setting most priorities, and provide for maximum innovation. As we suggested earlier, a decentralized system would require vigorous federal and state monitoring to guard against fraud and abuse and enhance quality control.

Under this decentralized cooperative model, the federal government would do a fair amount of steering but very little rowing. Federal level activities would include: establishing broad policy directions and general standards for eligible programs; administering the National Service Trust Fund; allocating (through agreed formulae) NSTF program slots to the states; selecting key national and local programs and intermediaries for the remaining slots; serving as a clearinghouse for service information and program evaluation; disseminating the federal share of program-related costs; backstopping state fraud and abuse prevention through a strong Inspector General; running a federal corps (of some as yet undetermined size); and exploring innovative ways of establishing a common consciousness and *esprit de corps* among thousands of local service programs. One possibility for accomplishing this would be a standardized initial training (boot camp) for all service participants, run by the National Guard, combined with a national logo and meetings bringing together representatives of different groups to share experiences and prescriptions for success.

At the state level, each governor would designate a lead agency to receive federal funds, certify programs as eligible for NSTF slots, serve as the first line of defense against fraud and abuse, and preside over the formation of representative local national service councils. The local councils would serve as principal agents for the recruitment and placement of volunteers. (Not all volunteers would be local, however. For discussion of the ensuing complications in matching volunteers and slots, see below.) These same councils could serve to help place AFDC recipients in community service jobs, as described in the Welfare Reform chapter.

With regard to certification of positions, it might be argued that a central role for state governments could increase the risk of political competition for designation and restrict opportunities in some states. Given these potential problems, two other possibilities should be noted. The **centralizing option**, federal designation of all positions, would standardize opportunities for participants from different areas and facilitate the use of volunteers by national non-governmental organizations, but at the cost of spawning federal bureaucracy, minimizing local control, and diminishing experimentation.

By contrast, the **radical decentralizing option** would grant presumptive approval to all 501(c)(3) organizations and government agencies as potential employers. This would create the broadest market of potential employers, maximize participant choice, and minimize bureaucracy. At the same time, this procedure would incur the greatest risk of poor supervision and use of participants, and produce the most problems monitoring quality and type of work.

What services would be performed?

A Ford Foundation study in 1986 identified 3.5 million labor-intensive community service jobs that could be filled by people in national service. We suggest that service in any of the following areas qualify: human service (including child care, health care, services for the elderly); education; public safety; and the environment. In most cases, except in service-specific models discussed below, priorities would be determined by the local community.

Examples of service-specific models may include:

- **Public Safety Corps**, in which service volunteers work in the areas of drug education, mediation, and crime prevention.
- **Public Health Corps**, in which service volunteers work in community health centers and in outreach programs for pregnant women and shut-in elderly citizens.
- **Earth Corps**, in which service volunteers help preserve and protect the urban and rural environment, e.g., by assisting in understaffed recycling

programs.

- **School-age Child Care**, in which older students staff after-school and summer programs for younger students requiring supervision while their parents work.
- **Youthbuild**, in which out-of-school youth learn building trades while they build or renovate housing for the homeless.

Examples of broad-based service programs include:

- **Youth Service Corps**, in which a variety of community projects are undertaken.
- **School-age Service Programs**, in which college graduates organize school-age children to participate in a variety of service activities.

Prohibited types of service should include: religious activities (although nonsectarian service in religious organizations would be permitted); activities to promote or deter union organizing; and activities directly connected with partisan politics or with the objectives of advocacy groups.

How much will service be worth?

Two basic options are represented by legislation already on the books.

A. Fixed amount. This is the approach taken by the National and Community Service Act, which provides full-time volunteers roughly \$5,000 in scholarship funds per year of service.

- *Advantages:* simplicity; ability to control costs (because the cost per individual would not vary); and provision of equal benefits to those performing equal work.
- *Disadvantage:* individuals with a great deal of debt must work longer than those with smaller loans to pay them back.

B. Percentage of total loan debt. This is the approach taken under existing federal loan forgiveness programs, which provide that 15% of the loan is forgiven in each of the first and second years of service, 20% in each of the third and fourth years, and 30% in the fifth year.

- *Advantage:* individuals with different amounts of debt work the same number of years to wipe out their debt.

- *Disadvantage:* it would be difficult to estimate costs from year to year, since each year of service would be worth a different amount for each individual.

On balance, the advantages of the fixed-amount approach appear decisive, and the disadvantage can be counteracted by setting the benefit high enough so that all but the most indebted students can discharge their loan obligation through two years of service.

While some advisors believe that the existing NCSA level of \$5000/year is about right, most believe that it is much too low and ought to be doubled, to \$10,000/year. (For example, the co-directors of City Year are strongly of this view.) A \$10,000/year figure would enable national service sponsors to tell pre-college youth: "Serve your country for two years and you'll be able to go to the public college or university of your choice and graduate debt-free." This is the figure your campaign used. It would also give incentives to graduates of elite institutions to reduce their debt significantly through service rather than automatically selecting income-contingent repayment.

There are four arguments against the higher figure that are worth considering. First, when combined with subsistence stipends and other benefits, the larger voucher would produce a total package larger than most comparable work performed outside the service system.

Second, the larger voucher exceeds the education and training benefits earned through military service. Under the Montgomery GI bill, for example, members of the military with two-year contracts earn benefits of \$7800 (\$3900 per year). The Army College Fund (ACF), which limits participation in various ways, provides an additional \$8000 for two years of service. The maximum available to two-year members of the military is thus \$15,800. The higher Opportunity Voucher figure might collide with the recruiting requirements of the ACF. This issue must be carefully explored with senior representatives of the armed forces.

Third, many voluntary service advocates believe that at some level the provision of material rewards in return for service may undermine rather than build the ethic of service. While it is difficult to quantify or test this concern, it should be taken into account.

Finally, the higher figure would add significantly to the overall cost of the national service program—roughly \$500 million per 100,000 participants.

Whatever figure is eventually selected for the Opportunity Voucher, its benefits should be non-taxable, and the legislative language should make this clear to avoid endless battles with the IRS.

Should service qualify individuals for post-service benefits other than education/training loan forgiveness?

There is less than full consensus on this question. Some advisors believe that the use of post-service benefits ought to be restricted to education and job training (including apprenticeships). Others take the view that the benefits should also be usable as training and internship vouchers payable to employers, as down payments for first-time homebuyers, and as seed capital to set up small businesses. Senator Mikulski is strongly in the second camp: she believes that pre-college Opportunity Vouchers ought to be usable for a wide range of opportunity-enhancing investments.

We favor the second option. For some young people, home ownership and small business entrepreneurship may represent the best next step up the ladder of opportunity; we should not be making their decisions for them.

We believe that a similar (though not identical) principle should govern benefits earned through post-college service. While the benefits should first be applied against outstanding loans, individuals should be allowed to retain any surplus and use it for a range of purposes roughly equivalent to those of the pre-college Opportunity Vouchers.

In addition to Opportunity Vouchers, what payments/benefits should be provided to participants in the service system?

It would of course be possible to provide no additional support beyond Opportunity Vouchers. This would economize on outlays, but at the cost of greatly restricting participation.

Stipends, at least reaching subsistence levels, will be necessary to encourage participation. Stipends in existing programs include \$100 a week (City Year), the poverty line (VISTA), and the minimum wage (Wisconsin Conservation Corps). The actual value of the stipend will vary depending on whether the stipend is taxable and whether it will affect a family's means tested benefits.

Other possible program-related costs include:

- providing health care benefits (\$1000/year)
- forgiving interest on outstanding education loans while serving (\$625/year)
- providing child care assistance to make participation more feasible for custodial parents (an average of \$1250 per position/year).

These program-related costs are prime candidates for state/local/private cost-sharing, discussed below.

How many slots will be available?

At first glance, it might seem most appropriate to establish national service as an entitlement: anyone who wants to serve should have the chance to do so on fair terms. But the moral appeal of this approach is overwhelmed by its practical disadvantages: it would make needed planning impossible; costs could go through the roof; and if high-end projections of demand materialize, the administrative infrastructure at every level could be swamped. For these and related reasons, there seems to be no alternative to a federal-level determination of the number of full-time-equivalent slots available each year.

In determining this number, three variables are critical: total funds available; capacity to locate, and match individuals with, meaningful work; and rate of program expansion. **At an earned benefit (Opportunity Voucher) level of \$10,000/year, our estimates suggest program costs of about \$2.3 billion per 100,000 full-time participants.** A program involving 250,000 would thus cost about \$5.8 billion. If states and localities (including the private sector) were challenged to put up 25 percent of program costs, a program of this size would require federal outlays of about \$4.9 billion annually; a program of 100,000 would require annual outlays of slightly less than \$2 billion.

As for the absorption capacity of the overall system, it's hard to be sure; but recall that altogether, VISTA, the Peace Corps, and state/local youth corps provide fewer than 35,000 full-time slots. An increment of even 100,000 would represent a huge jolt; building up to 100,000 over (say) four years would mean adding nearly the equivalent of today's full-time service opportunities in each of those years. A buildup to 250,000 over four years would mean an increment of more than twice the current level of activity in each of four years.

Putting everything together, we draw the following tentative conclusion: an increment of 100,000 by the end of FY 1997 would be enough to make a significant and visible difference, while an increment of 250,000 by FY 1997 probably represents the limit of what is fiscally and administratively possible.

Of course, this is all on the supply side. Given the program parameters, we have no way of knowing in advance whether enough people will avail themselves of these new opportunities to serve. We should not allow ourselves to be bewitched by our own rhetoric about the revival of civic spirit; if your economic growth program works as we all hope, we may find ourselves competing against increasingly attractive private sector opportunities.

How will slots be allocated and participants matched with slots?

While much of the task of allocating slots and matching participants would be handled by local councils, two problems would remain. First, the number of individuals seeking service opportunities might exceed the number of available slots. Second,

with a decentralized service option and individuals from across the country seeking a limited number of positions, some system would be needed to match students and positions across jurisdictional lines.

- There are a number of options for dealing with an imbalance between slots and service-seekers. Slots could be allocated on a competitive basis. Alternatively, service-seekers meeting basic qualifications could be selected on a first-come first-served basis or through a random lottery. (There's no necessity to make a one-size-fits-all choice among these options; it ought to be possible, within limits, to take local and programmatic differences into account.) If there were an effort to preserve a certain ratio between post-college and pre- or non-college servers, a separate pool would have to be established for post-college service-seekers.
- To deal with placements across jurisdictional lines, programs and employers with certified positions might be listed on a national database that could be accessed by students seeking placements. Individuals seeking placements could put their resumes into the database along with any preferences (type of service, location, etc.) so that organizations across the country could locate qualified applicants. Vigorous local recruiting would likely provide a steady stream of individuals from the communities in which service would be performed. If slots are in short supply, this system would reward individuals who are particularly eager to serve and therefore make the effort to contact a broad range of organizations.

How can we guard against displacement of paid workers?

An important premise of the program is that participants will provide needed services that would not otherwise be provided. This will not be the case if paid workers lose their jobs to the volunteers. In order to protect paid workers, the anti-displacement provisions of the National and Community Service Act should be incorporated in any new legislation. Further, potential for displacement of paid workers should be a primary consideration in the determination of which positions qualify for loan forgiveness.

OTHER KEY SERVICE PROGRAMS

While the proposed National Service Trust Fund emphasizes full-time service by young people 18 to 25 years of age, we recognize that service to our country stretches over an entire lifetime. We celebrate initiatives in every part of our society that promote the ideal of lifetime service. And we believe that with only modest additional resources but extensive use of the Bully Pulpit, you could help turn this ideal into reality.

School-age and College Youth

The National Education Goals recognize the importance of community service participation as a means of achieving the citizenship goal. Participation of elementary and secondary school-age children in these programs will not only lay the groundwork for future participation in community service, but will pay additional dividends by:

- Teaching young people from the earliest grades that they have the power to make a difference in their communities and a responsibility as citizens to do so;
- Improving student achievement by making learning meaningful and reengaging students turned off by traditional teaching methods;
- Increasing young people's connection to their communities, thereby reducing antisocial behavior such as drug use and crime;
- Providing many hours of needed services at minimal cost; and
- Helping young people develop self-esteem and skills of teamwork, leadership, and problem-solving.

The existing federal program that supports service by school-age youth is "Serve-America," part of the National and Community Service Act. Federal funding for service by college students is provided through "Higher Education Innovative Projects," also authorized under the Act, and the "College Work Study Program." Because these programs are part-time and generally do not provide stipends for the young volunteers, they are relatively low-cost.

Participation in these programs would generally not qualify students for loan forgiveness. However, these programs could provide placements for up to 25,000 full-time national service participants who would help organize the younger students in service activities.

The National Commission estimates that with relatively modest annual appropriations (\$60 million in FY 1994, \$105 million in FY 1995, and \$150 million in FY 1996), meaningful and well-run service programs could be established in more than 50 percent of America's public schools by the end of 1996.

It could be argued, however, that these activities are primarily a state and local function. For example, Maryland recently imposed a service requirement for high school graduation. At the very least, you could challenge every other state to follow Maryland's lead and (as Sen. Mikulski has suggested) find a way of rewarding states that do so with what she calls a "Good Guy bonus."

In a similar vein, the Commission estimates that a total appropriation of \$100 million (\$20 million in FY 1984, \$30 million in FY 1995, and \$50 million in FY 1996) would suffice to create service programs on over two-thirds of all college campuses. Here again, others might argue that this is principally a non-federal responsibility; after all, of 3,500 universities, 650 have such programs already. You could vigorously encourage the rest to follow suit. A visit to an outstanding campus-based service program, such as Rutgers University's Civic Education and Community Service Program, would be an excellent way of dramatizing his concern.

We recommend the Bully Pulpit rather than any major funding commitments to school-based service at this time, until your overall national service program is up and running and its funding base is secure.

Older American Volunteer Programs

Given the growing number of older citizens and their increasing expected lifespan, retirees are an important resource for communities. The three Older American Volunteer Programs, now administered by the ACTION agency, should be expanded and additional opportunities created for this older population. In addition, intergenerational components should be incorporated into many of the youth-targeted programs discussed above. For example, seniors could help staff the local service councils (described above) that help locate service opportunities and match slots with volunteers.

OPTIONS FOR FEDERAL ADMINISTRATIVE STRUCTURES

The issue of a federal structure for administration of the National Service system remains unsettled and contentious. There is consensus on two points, however:

1. The White House Office of National Service, now led by a Director with the rank of Assistant to the President, can help promote vital interagency coordination, draft legislation, and keep national service high on the President's agenda. Notwithstanding the proposed White House staff reduction, this position should be retained for an individual who enjoys the confidence of the President and of the key elements of the national service community.
2. Rather than an existing department already charged with a mission other than service (such as the Education, Labor, or Defense departments), the lead national service agency should be one whose purpose is service itself.

Three federal agencies now administer the major federal service programs: the Commission on National and Community Service, ACTION, and the Peace Corps.

The Commission, which is governed by a 21-member board of directors appointed by the President, administers the National and Community Service Act programs. Designed to be a small, non-bureaucratic agency (currently it has only 17 employees to administer \$75 million in programs), the Commission has no field structure, working instead through state lead agencies identified by governors. Created by Democratic legislation in 1990, the Commission has been characterized by innovation and a close working relationship with the field. Although the Board is currently composed of individuals appointed by President Bush, members are eager to work with you. There are currently five openings on the Board, with an additional seven positions opening up in September. Therefore, within the year, you can appoint an effective majority of Board members.

ACTION was created in 1971 to administer federal volunteer service programs. In recent years, it has suffered under poor political leadership and a demoralized civil service staff. Currently ACTION employs over 400 people to run VISTA and the Older American Volunteer Programs. It has a regional and state field structure.

The Peace Corps has a relatively small regional field structure within the United States. Because the Peace Corps deals with overseas rather than domestic service, we have ruled out including it in any reorganization.

The following are the principal structural options for the lead national service agency:

Option 1: The service aspects of the National Service Trust Fund could be administered by a single entity created by folding ACTION into the Commission on National and Community Service and making modifications to the Commission's governance structure to allow for greater operational strength and Presidential control. This agency would not necessarily be a "commission"; it could be a corporation along the lines of the original Nunn-McCurdy proposal, or an agency along the lines of EPA.

- *Advantages:* Building on a small, non-bureaucratic group known for innovation would create a good precedent for reinventing government. The Commission's primary experience is in the field of youth service, also the target of the Clinton national service system. Because the agency is still relatively new, it could be easily reshaped to fit the new system. The Commission works well with the field, including the state and local programs likely to play a major role in the new system, and has developed a good system for drawing on the technical expertise of individuals in the private sector. It enjoys strong support in Congress.

- *Disadvantages:* The Commission is new and has relatively limited experience. Absorbing the ACTION programs would require a major expansion of the agency. The Commission has little experience with senior volunteer programs

and those involving individual placements.

Option 2: In order to give the service programs better coordination and visibility, the two federal agencies that administer the major domestic service programs could be loosely federated as "sister agencies" with ACTION charged with administering VISTA and the Older American Volunteer Programs and certifying individual placements, and the Commission charged with supporting the National and Community Service Act programs, new programs specially targeted on post-college youth, and certifying programs. An individual who is both a good administrator and a national leader with service program experience would be appointed to head ACTION. Vacancies on the Commission board would be filled by individuals with knowledge of the service field, including young people who have participated in service programs. The ACTION field structure would be retained, and would be charged with national recruitment for the loan forgiveness program, as well as VISTA. Both agencies should coordinate closely with the Peace Corps, particularly on recruitment.

- *Advantages:* This would allow time for planning and quick start up of programs; reorganization could take place at any time in the future. It could preserve the positive aspects of both agencies.
- *Disadvantages:* Coordination of functions between two agencies could be difficult. In the worst case, it could preserve the negative aspects of both agencies.

Option 3: Fold the Commission into ACTION. Under this option, the Commission board would be eliminated or placed under the Director of ACTION, and ACTION would run the National Service system.

- *Advantages:* ACTION has long experience with domestic service programs and its regional and state offices could be an asset. It is Presidentially controlled and has experience with individual placements through VISTA and with senior volunteer programs.
- *Disadvantages:* ACTION is an old-style bureaucracy, heavy on federal personnel with a history of resistance to change. It has been subject to the political winds and has been a dumping ground for unqualified political appointees who have driven out many good civil servants. It also has very little experience with youth service programs; when the Commission was created, Congress explicitly decided not to put the new programs in the ACTION agency for these reasons.

Option 4: Merge the two agencies into a single new agency.

- *Advantages:* This could be a visible way to show the President is serious about elevating national service on the national agenda. It would build on the expertise of both agencies while allowing the President to eliminate a federal agency,

thereby modestly reducing bureaucracy.

- *Disadvantages:* Slow start-up. The Commission was intended to be this new agency, one which could expand when Congress and the President were willing to put new resources into service.

Option 5: Scrap both existing agencies and create a new one.

- *Advantages:* As with Option 4, this would be a visible way to elevate service.
- *Disadvantages:* This would mean an even slower start-up, and it would risk losing the accumulated experience of both ACTION and the Commission.

On balance, we believe that the Commission has been an entrepreneurial success story and that we ought to build on its strengths. The point is not to reinvent success, but to replicate it. We favor Option 1, with serious attention to the legal and structural changes the Commission would require to handle greatly enhanced responsibilities and to respond to presidential directives.

Whichever option is ultimately selected, the timing of your national service initiative is propitious: both the National Commission and ACTION are up for reauthorization in 1993. The legislative calendar thus provides the opportunity for fundamental rethinking and redesign of the administrative structure through which the federal government seeks to steer national service.

One of the most difficult structural issues concerns the location of the National Service Trust Fund. This Trust Fund is actually an amalgam of two distinct activities and revenue streams. On the one hand, it would administer appropriations and disbursements for Opportunity Vouchers; on the other hand (at least as conceptualized during the campaign), it would administer appropriations and disbursements for, and repayments from, income-contingent direct loans.

The first set of activities is relatively straightforward and intrinsically related to service; the Opportunity Vouchers could (and probably should) be handled by the lead service agency (whatever it turns out to be).

By contrast, the second set of activities raises complex questions of student loan design and administration—areas in which national service experts have very little experience. Some have suggested that the Department of Education should be given the lead in this area; others note (correctly) that administrative competence within the department is notoriously low, particularly in student loans.

One proposal for breaking this impasse would be to give some competent intermediary such as Sallie Mae lead responsibility for developing efficient and effective ways of implementing this part of the president-elect's proposal. The President and

CEO of Sallie Mae has indicated his willingness to cooperate in this endeavor.

RESTRUCTURING THE NATIONAL EDUCATION FINANCING SYSTEM

Restructuring the national education financing system is the other major component of your National Service Program. Your campaign proposals included:

- Replacing existing loan programs with direct federal lending to students;
- Making loan repayment contingent on income and collectible through the tax system; and
- Total or partial loan forgiveness in return for national or community service.

Current Law

In the Higher Education Amendments of 1992, Congress enacted a number of programs similar to, though not as far-reaching as, your proposals.

Universal loan availability Perhaps the most important change makes loans universally available. Beginning October 1, 1992, students who are not judged to be financially needy through the traditional financial aid process are nonetheless eligible for an "unsubsidized" Stafford loan. While this loan has the same terms and conditions as the regular Stafford loan, the government does not make interest payments. The student must either make the payment or add the interest to the principal.

Direct lending pilot The most controversial provision (which drew a veto threat from Bush) was a Direct Loan Demonstration Program to test the idea of taking the banks and Sallie Mae out of the student loan business. This pilot program will use a representative sample of schools at which the loan volume this year totals \$500 million, or about four percent of the current loan program.

Income-contingent repayment The law authorized, but did not mandate, three provisions relating to income-contingent repayment. The Secretary of Education has discretion in designing the program, except that the law requires that loans be forgiven after no more than 25 years, and that the new system cost less than the current system. Implementation will require cooperation from the IRS, which resists the idea, and needs your leadership to ensure movement toward implementation.

Loan forgiveness for community service. The 1992 amendments also include a \$10 million demonstration program in loan forgiveness for teaching, nursing and other

community service work.

Restructuring Loan Programs: Options and Recommendations

There are three basic options for reforming the current student loan program to establish a comprehensive system of financing college education with national service and income-contingent loan repayment options:

1. Scrap the existing program completely and make income-contingent repayment and national/community service cancellation available as part of a direct loan program;
2. Consolidate the current GSL programs and make the new repayment options available to all borrowers; or
3. Make the new repayment options available to all borrowers, consolidate the current GSL programs, and expand the direct loan pilot program authorized in the Higher Education Amendments of 1992.

The third option is most realistic, both administratively and politically. A discussion and analysis of the options follows.

Option 1: Eliminate The Current Guaranteed Loan Program.

Under the existing GSL Program, banks make loans to students, and the federal government subsidizes interest and other costs, covering defaults through state guarantee agencies. This option proposes that the government make loans directly to students through schools, eliminating the confusion and cost of the banker-guarantor system.

The primary arguments in favor of this option are:

1. *It's Bold.* Developing a new loan program would be a bold, imaginative step consistent with your emphasis on change and investing in people. Revising the existing program is unlikely to capture the public's imagination as much as launching a new one.
2. *It Saves Money.* A direct loan program will save billions of dollars over five years because of reduced subsidy costs. There may, of course, be ways to save money by reducing the number of players in the current system, but not moving all the way to direct lending.
3. *It's Right.* Banks should not be making profits at the expense of students. If the federal government can run a student loan program more cheaply, it should.
4. *It's Efficient.* Guarantee agencies, loan servicers and collection agencies are all

involved in the student loan program. Terminating the existing student loan program would eliminate these middlemen and simplify the program.

5. *It's Good for Borrowers.* A direct lending system will be simpler, ending numerous problems students currently encounter: the complexities associated with getting loans and repaying them; servicing problems that plague even the most careful borrowers; lenders and servicers with little administrative ability; student "defaults" because of loan servicer mistakes causing problems in their credit records.

6. *It's Popular.* Influential members (primarily Democrats) in both the House and the Senate strongly favored a direct loan program in the last Congress.

Option 2: Consolidate the Loan Programs and Programs and Provide Newer Forms of Repayment.

Achieving the goals of a National Service program may not require scrapping the current system entirely. They may be attainable through several modifications to the existing guarantee system:

- Consolidate the four existing loan programs into two, or possibly one, program.
- Continue to provide lower-income students assistance in making interest payments.
- For other students and parents, create a less subsidized loan program incorporating the current SLS, PLUS, and unsubsidized Stafford programs.
- For students in community service, the government can simply make loan payments to banks, as it does currently for loan deferment.
- For students choosing income-contingent repayment, the federal government could either purchase the loans for collection by the IRS, or arrange with Sallie Mae or another entity to collect payments based on IRS information.

The primary arguments for this option are:

1. *Administrative Ability.* Given that the Department of Education has not effectively administered the GSL program, better results are unlikely if it runs a direct loan program giving it even greater responsibilities.
2. *School Concerns.* When Congress considered replacing GSL with a direct loan

program, smaller schools and those without significant administrative expertise opposed the idea, particularly historically black colleges and community colleges. While they may be more favorable to such an idea in a Clinton Administration, they remain concerned about taking legal responsibility from the banks for originating the loans.

3. *Questionable Schools.* You would not want every school to be able to originate loans in the name of the federal government, without far better monitoring than has historically happened. Witness the number of schools in the GSL program with dubious records.

4. *Political Opposition.* Banks will vehemently oppose establishing a comprehensive new program, citing possible harm to their financial stability. Organizations with a stake in the existing program – particularly guarantee agencies linked to state governments – will oppose it vociferously since direct loans would put them out of business. Higher education associations will be lukewarm since their memberships are split. Student groups who favor streamlining the loan program don't have strong opinions about direct lending.

5. *Action.* Everyone is excited about the program. We want to satisfy public expectations by making changes quickly. Implementing income contingent repayment and service cancellation will be difficult enough. Trying to start a direct loan program simultaneously will unduly complicate the task at hand.

Option 3: Combine the Consolidated GSL and Direct Loan Approaches.

This option aims to blend the previous two, establishing a National Service Trust Fund that moves toward direct lending (Option 1), while continuing a consolidated guaranteed loan program (Option 2). Under this option:

- For students choosing income contingent repayment, the NSTF would purchase the loans from the holders (or transfer them from the direct loan program) and arrange for collection through the IRS. The precise level of loans to be purchased will depend on the speed with which the IRS can implement income-contingent repayment.
- For students engaging in national/community service, the NSTF could either purchase the loans or make payments to the holders to cancel portions of the loan as the borrower completes his or her service. Participants would receive \$10,000 in loan forgiveness for each of up to two years of certified community service. These options would be available to any borrowers, regardless of the type of federal student loan that they have.

- Expand the direct loan demonstration gradually to include more schools, without threatening loan availability. While the direct loan idea is too promising to ignore, and the potential savings too great to ignore, there are compelling reasons to proceed cautiously. We propose expanding from 200 to 500 schools in the first year of the test. Further expansion would be authorized, depending on results and interest.

The advantages of this option are:

1. *Increase Momentum to Change.* This option moves the system toward a direct loan program without fighting the battle for immediate implementation. A larger demonstration will quickly indicate whether the program is really feasible, and success on a large scale will bring pressure for expansion from schools who will want to participate. Such pressure will make it easier to overwhelm opposition from those with a stake in the current program whose primary line of defense against the program is that it is untried.
2. *Encourage Competition.* Keeping both systems will provide students with more attractive repayment options both from the government and private lenders. Sallie Mae recently dropped rates for those who pay on-time, the first time a major lender admitted they could afford to charge less for student loans. They deny it was a response to the direct lending threat. It could also save money by giving Congress a better sense of the subsidy level necessary to keep banks and secondary markets in the program.
3. *Simpler to Implement.* The administrative challenges are more manageable, and the risks of a serious administrative problem greatly reduced, by phasing the program in more slowly.
4. *Selectivity Among Schools.* By selecting which schools will participate in the direct loan initiative, the federal government will be in a better position to ensure that only schools with the administrative capacity to run the program are permitted in the program.
5. *Easier Politically.* While lenders, guarantee agencies, secondary markets and servicers should find it more difficult to oppose this initiative, the threat of change may lead them to offer alternative ideas worth could be worth pursuing.

Analysis and Recommendations

The major challenge in developing the National Service Trust Fund is how to balance the desire to move boldly forward with a major new initiative that captures the public imagination with the dangers inherent in proceeding in uncharted territory. Nothing could be more damaging than to have the program's objectives and public support undermined by encountering unexpected consequences from a poorly thought-

out or tested reform effort. Incremental reform as in Option 2, would be easier to pass and easier to implement. Dramatic changes, such as a quick move to a full direct loan program (Option 1), would clearly capture the public's attention but face serious administrative and political problems discussed above.

To combine a significant new reform of student aid with minimal political problems and make implementation more manageable, we recommend the third option. By pursuing this course, we can take credit for dramatically expanding options for education, training, and economic opportunity while maximizing political support. This strategy also minimizes the chances of significant administrative problems and allows time to correct them. Finally, it sets in motion an orderly process that, over time, will lead to a total transformation of the current system, which would not be feasible if pursued immediately and explicitly.

There are several major issues to consider in designing the proposal for income-contingent repayment of loans, including:

IRS participation. Some argue that the IRS exists to collect taxes, not loan payments. While student loan payments can be based on income, they should still be collected by servicers. Experience in one test program points to significant possible problems, particularly getting former students to send copies of tax returns to loan servicers to confirm their income. Without returns, payment schedules have to be based on assumed income increases from the previous year, instead of real income.

We recommend collecting payments through the existing tax system. To reduce the burden on employers, extra amounts due could appear as increased income tax withholding rather than a separate line item. The amounts can later be reconciled with the borrower's income tax filing.

Option or requirement? If income-contingent repayment is required on all loans, we can assume that borrowers will have a wide variety of income patterns, and that losses on some loans will be balanced by gains on others. The program will be actuarially sound. But if, under an optional plan, only borrowers who expect to be low income participate in the program, or if borrowers are allowed to move in and out of the income-contingent repayment system, gaming of the program may make its costs more unpredictable. This problem is known as "adverse selection."

We recommend making income contingent repayment optional, exercised either at the time the loan is taken or upon graduation. Borrowers who default on their traditional loans should automatically be placed on the income-contingent collection system.

Avoiding adverse selection. Past designs for income-contingent loan collection often included "cross-subsidies"—borrowers who make high incomes after college in effect subsidize those with lower income. For example, a program at Yale in 1972-73

allowed students to "postpone" tuition payments by agreeing to pay a percentage of income over 35 years, up to a maximum of 150% of the tuition charge, plus interest. The program was discontinued, in part because the high-income penalty led to low participation.

We do not recommend including a significant cross-subsidy in the program. Subsidies for lower-income borrowers should come through default reduction (due to IRS collection), and perhaps with some of the savings from direct lending. If income-contingent repayment is an option, it should offer slightly better terms than conventional repayment, such as a lower interest rate or lower fees reflecting the lower cost of automatic collection and countering the impression that there is a high income penalty.

Eligibility and consolidation. While it would be simplest to implement income-contingent repayment for borrowers who do not already have any guaranteed student loans, many current and former students will want to participate in the program.

We recommend making the national service and income-contingent repayment options available for new loans, including new loans to old borrowers. Borrowers who opt for income-contingent repayment on their new loans should be allowed to consolidate their old loans into the program. Consolidation for purposes of national service forgiveness would be too costly, however.

Payment formula. This is perhaps the most complex issue. Having borrowers pay a fixed percentage of income for a fixed number of years won't work because it results in a major cross-subsidy, leading to adverse selection (discussed above). Some propose addressing this problem by requiring a fixed percentage of income until the loan is paid off, subject to an outside time limit. That is not without its own problems, however. For example, an 8 percent payment may be a burden for someone in poverty, but not a problem for a middle-income borrower. It also seems unreasonable to require an \$8,000 payment from someone making \$100,000 a year if they only owe \$10,000.

One approach to be seriously considered is an "adjusted amortization schedule," under which repayment for a borrower with average income is set so that the loan is paid off over a reasonable period, such as 12 years. The schedule could be adjusted for borrowers whose income is significantly above or below the average. At the low end, a basic living allowance should be protected, and a ceiling imposed on the maximum percentage of remaining income that can be taken for loan payment. Any remaining debt should be forgiven after 25 years.

We must also pay particular attention to what we demand of borrowers who are relatively low income after college. We do not want to subsidize students who simply take time off after college, but we may want to assist those who do low-income work, or are low income for a longer period. This will add to the cost of the program, but will also encourage students to perform community service or go into a lower-paying pro-

fession.

Designing the payment formula and testing it for unintended incentives and actuarial soundness requires further time and consideration. The issues discussed here are just some of the complexities associated with designing the payment formula. Others include the treatment of married couples and the definition of income.

Costs, Savings & Related Issues

A direct loan system could save a substantial amount of money, as could income-contingent repayment, depending on the design of the program. These savings could be used to offset the costs of the National Service program.

Direct Lending. The U.S. General Accounting Office estimates that the federal government could save \$4.8 billion over five years by switching completely to a direct lending system for all new loans. The Congressional Budget Office and the Education Department have previously estimated similar or higher savings. These savings arise primarily because it is cheaper for the federal government to acquire capital directly, rather than paying banks to do it. The savings under our recommended plan will obviously be less since savings depend on the size and pace of the expansion of the Direct Loan Demonstration.

Income-contingent repayment. Using the tax system to collect loan payments will reduce loan defaults substantially. One third of the nearly \$3 billion set aside for the cost of loans made this year covers the cost of future loan defaults. Savings will be highest if either (1) all loans are collected on an income-contingent basis, or (2) all new borrowers, even those who choose conventional repayment, switch automatically to IRS collection in the case of default. The marginal cost of IRS collection will likely be lower than contracting with outside servicers for conventional collection, although start-up costs at IRS may be substantial.

Income-contingent repayment will also involve some costs. Borrowers who remain very low-income after college (or after dropping out) will have their remaining debt forgiven by the government after a period of time (25 years in most proposals). This is essentially a "default" that cannot be avoided, because the person has no or inadequate income. In addition, it may make sense to design a system that helps lower-income borrowers in other ways, such as reducing the interest that is capitalized when payments are too low. As noted above, helping these borrowers would have the added benefit of subsidizing people who engage in low-paying public service jobs.

Questions have also been raised about the appropriateness of the current in-school interest subsidy received by Stafford borrowers, and about the possible impact of the National Service Trust Fund on college tuition.

In-school interest subsidy. The largest government cost in the student loan pro-

gram is making interest payments on Stafford loans while students are in school. This benefit goes to poor and middle-income students, and graduate students who qualify based on need. According to the Congressional Budget Office, charging these borrowers interest while they are in school would save \$575 million in 1992, and \$4.1 billion over the 1992-96 period.

There are serious political problems in using these savings to fund National Service. Like earlier proposals to fund service by eliminating Pell Grants, this would be portrayed as taking aid away from needy students to fund a non needs-tested program. It might be more equitable — but still very controversial — to use the savings to subsidize borrowers who are low-income after college, instead of during college. The argument for this approach is that students with high incomes after college should not be getting a large subsidy while in school; instead, the program should provide those who fail to reap the income benefits of postsecondary education with lower indebtedness. But to the higher education community, the in-school interest subsidy is sacred, and any proposed changes will be vehemently opposed.

Rising college tuitions. Some fear that a major new student aid program will result higher college tuitions. This should not be an issue with the National Service Trust Fund because the program does not increase the amount of aid that most students can receive, it simply offers new options for repaying loans. Research suggests that while federal aid and tuition may be related at proprietary schools, there is no such link in the traditional college sector. Tuition at community colleges and other state institutions is affected almost exclusively by the level of state appropriations, while private colleges respond principally to forces other than student aid. We would view any proposal for a federal role in college tuition-setting practices as politically unpalatable and administratively unworkable.

CONCLUSION: AN HISTORIC OPPORTUNITY

Like John F. Kennedy three decades ago, a young President-elect has captured the nation's imagination with his call for a renewed ethic of service to country. There is now an historic opportunity to mobilize citizens and resources, public and private, to address long-ignored national needs.

There are signs that this mobilization is already gaining momentum. The recently authorized Civilian Community Corps offers a promising new way for recently deactivated military personnel to guide young people in performing national service. The Returned Peace Corps Volunteers, numbering more than 135,000, have indicated their eagerness to respond to your call. Across the country, service organizations are growing, in communities and schools, on college campuses, and among senior citizens.

The untapped potential to address unmet needs is enormous. The federal gov-

ernment itself can be made service-friendly. Business can be challenged to do more. Each of us can be challenged to do better. With efficient use of resources and effective employment of the moral authority of your office, you can catalyze the profound social transformation—the renewal of citizenship—for which so many Americans have yearned and worked for so long.

Individuals and Groups Consulted (partial listing)

Full Board of the National and Community Service Commission

Ad hoc Washington working group

Craig Bury, Chambers Associates

Richard Danzig, Latham and Watkins

Peter Edelman, Georgetown Law Center

Terry Hartle, Senate Committee on Labor and Human Resources

Nick Littlefield, Senate Committee on Labor and Human
Resources

David Long, Manpower Demonstration Research Corporation

Shirley Sagawa, National Women's Law Center

John Shattuck, General Counsel, Harvard University

Bob Shireman, Senate Subcommittee on Employment and
Productivity

Melanne Verveer, Presidential Transition Office, Office of
Hillary Rodham Clinton

National Service Meeting, John F. Kennedy School of Government

Senator Sam Nunn

Senator Barbara Mikulski

Senator Harris Wofford

Congressman Dave McCurdy

Alan Khazei, Co-Director, City Year

Mike Brown, Co-Director, City Year

Catherine Milton, Executive Director, NCSC

Charles Moskos, Northwestern University

Gary Orren, JFK School

Graham Allison, JFK School

Will Marshall, Progressive Policy Institute

Kevin Kelly, office of Senator Mikulski

Alden Schacher, office of Congressman McCurdy

Joe Duffey, President, American University

Richard Rosser, President, National Association of Independent
Colleges and Universities

Robert Atwell, President, American Council on Education
Neil Rudenstine, President, Harvard University
Clare Cotton, President, Association of Independent Colleges and Universities of Massachusetts
Gregory Fusco, Vice President, Columbia University
David Morse, Vice President, University of Pennsylvania
Hank Dullea, Cornell University
Jack Crowley, Director of Federal Relations, MIT
Madeleine Kunin, Former Governor of Vermont
Sam Brown, Former Director, ACTION
Bob Durkee, Vice President, Princeton University
Dorothy Robinson, Vice President, Yale University
Norm Richter, staff, Senate Finance Committee
Amy Peck Abraham, staff, Senate Budget Committee
Carol Mitchell, staff, Senate Appropriations Committee
Ken Holdsman, Legislative Director, Congressman Rob Andrew
Representative Bill Ford, House Education and Labor Committee
Susan Stroud, Executive Director, Campus Compact
Lisa Woll, National Association of Service and Conservation Corps
Vanessa Kirsch, Public Allies
Sam Halperin, WT Grant Commission
Jerry Klepner, AFSCME
 Youth Serve America Working Group
 Young Peoples's National Service Coalition
 National and Community Service Act Coalition
John Briscoe, Executive Director, PennSERVE
Don Mathis, Director, Pennsylvania Conservation Corps
Mimi Mager, Former Executive Director, Friends of VISTA
Richard Celeste, Former Governor, Ohio
Dave Evans, office of Senator Pell
Kim Wallace, office of Senator Mitchell
Ken Apfel, office of Senator Bradley
Kathleen Kennedy Townsend
Toby Moffitt
Michael Bailin, Public/Private Ventures
Roger Landrum, Director, Youth Service America
Frank Slobig, Youth Service America

BUDGETARY EFFECTS
(In Billions)

<u>NATIONAL SERVICE</u>							
<u>PROGRAM</u>	<u>FY93*</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>94-98</u>
National Service (Cost Per 100,000 Students, Assumes 100,000 Students By January 1996)	0	.350	1.1	1.8	2.1	2.4	7.75
NATIONAL SERVICE SUBTOTAL	0	.350	1.1	1.8	2.1	2.4	7.75

National Service Trust Fund Act of 1993

A. Establishment of the National Service Trust Fund

Funds appropriated to the Trust Fund may be used to provide a benefit worth \$10,000 for each year of service to individual completing one or two terms of approved national service. [Issue: an alternative to raising funds each year for the Trust Fund through appropriations would be to create an actual trust fund. Suggest that we ask OMB to design an actual trust fund to determine if this is workable and a preferred design.]

States and a new National Service Agency will approve national service positions in the areas of education, human services, environment, and public safety from among the following:

- Programs funded in part 3 of section B, below.
- Program comparable to those funded in part 3 of section B, below.
- In the case of individuals who have completed one term of national service in a youth corps program, service on the staff of a youth corps program.
- Service as a service-learning coordinator in a program eligible for funding under part 1 of section B, below.
- Service in employer-support service positions that have been vacant for not less than a year and are unlikely to be filled due to a shortage of qualified applicants and that are located in depressed urban or rural areas.

To guard against displacement of paid workers, the nondisplacement and nonduplication provisions of the National and Community Service Act apply to all positions.

The ability to approve half of national service positions will be awarded to states -- one-fourth of positions to be allocated to states based on population and one-fourth based on a competition. The other half of positions will be awarded by the National Service Agency -- at least one-fourth directly to public and private non-profit organizations and up to one-fourth to federally run programs or programs sponsored by other federal agencies.

Any recent college graduate of any age or out-of-school youth may participate by applying to and being accepted into a program offering approved national service

positions. To assist individuals in locating approved positions, a national database will be established which can be accessed through college placement offices, employment centers, and other appropriate locations.

A minimum term of service qualifying the individual for a \$10,000 benefit is equal to 1500 hours of service over a period of not less than nine months. A part-time term of service of the equivalent number of hours must be completed within three years. A benefit may be used to pay for tuition, fees, room and board at an institution of higher education, to repay qualified federal student loans, or to obtain employment training.

To promote national esprit de corps, the National Service Agency will arrange a national training program for participants, along with a national insignia to be used on uniforms, promotional materials, and other materials of approved programs. It will also arrange for a national visibility campaign promoting national service and facilitate creation of an alumni network of individuals who have participated in national service.

B. Authorization of National Service Programs

To support an infrastructure of national service positions, funding is authorized for stipends and benefits (health care, child care) for participants and for program support. Three types of National Service programs may be supported:

1. Education programs, as authorized under subtitle B of the NCSA.
2. Older American programs, including the Older American Volunteer Programs of the Domestic Volunteer Service Act.
3. Full- and part-time national service eligible for benefits through the Trust Fund, including:
 - Youth Corps (as currently authorized in subtitle C and D of the National and Community Service Act);
 - Specialized Service Corps (including Earth Corps, Public Safety Corps, Health Corps, Education Corps, and a Child Welfare Corps);
 - Individual Placement Programs (as currently authorized in subtitle D of the NCSA and VISTA);
 - Professional Corps (including a Police Corps, Teach for America Corps, and Service-Learning Corps); and

-- Public Interest Entrepreneurs.

Stipends for full-time participants will be set locally; however, federal funds may not be used to pay stipends above the poverty line for a family of two (increments above this amount may, however, be paid with non-federal funds). All participants will receive health insurance and child care assistance, if needed.

Three types of support may be made available for full- and part-time national service:

-- Single-year planning or start-up grants, available to individuals, states, and public or private non-profit organizations including education institutions;

-- Multi-year operations grants, available to states and public or private non-profit organizations wishing to improve or expand existing programs.

-- Multi-year replication grants, available to states and public or private non-profit organizations wishing to replicate proven existing programs.

All full- and part-time national service grants will be made on a challenge basis and must be matched dollar for dollar with at least half of the match in cash.

C. Establishment of the National Service Agency

A new National Service Agency, governed by a nine-member Board of Directors, will administer the Trust Fund and the programs described above. [Note: perhaps the communications people can develop a more exciting name for the agency.] The ACTION and the Commission on National and Community Service will be eliminated, with the Commission staff, and selected ACTION staff, serving as interim staff for the new National Service Agency. [Issue: we need to learn more about what happens when you close down an agency, particularly regarding civil servants. Also, of what value are the ACTION state and regional offices -- can their functions be performed by a central office in Washington?] The Board of Directors of the National Service Agency will be a bipartisan group appointed by the President and confirmed by the Senate. All Board members will serve on a part-time basis as volunteers with the exception of the Chair, designated by the President, who will serve full-time and receive a salary. The Board will have maximum flexibility to appoint the staff, including an executive director. [Issue: with a program such as this, significant effort must be made to monitor against fraud and abuse. An inspector general is probably needed -- what special rules must be followed in setting up an IG office?]

The National Service Agency would have responsibility for the following functions:

- establishing criteria for approved national service positions and allocating them according to the statute;
- monitoring compliance with the law and ensuring against fraud and abuse;
- arranging for a national database of positions;
- arranging for a national training program for national service participants;
- arranging for a national visibility campaign promoting a national service ethic and participation in national service;
- facilitating creation of an alumni network of national service participants;
- coordinating service programs within the federal government;
- administering the National Service programs described above in section B;
- providing training and technical assistance to states and programs.

D. State Governance

The governor of each state may designate a lead agency and appoint a State National Service Commission responsible for administering the Trust Fund and the National Service programs described above in section B. The State Commission will include representatives of local service program directors and other citizens and will develop a plan for service, including proposed national service placements. The plan must ensure equitable treatment of urban and rural areas within the state and be approved by the governor and the National Service Agency.

A small grant will be made available to each state to develop the plan. Once the plan is approved by the National Service Agency, the state will be eligible to receive an allotment (determined half by a population-based formula and half based on a competition) of national service positions, as well as grants for national service programs described in section B.

DRAFT

January 21, 1993

NATIONAL SERVICE TRUST FUND ACT.

Short Title: National Service Trust Fund Act of 1993.

TITLE I. Purposes. The purposes of this Act are:

- to inspire in all Americans a new commitment to serving their country, their communities, and their fellow citizens;
- to provide access to higher education and job training for all young Americans, regardless of their economic background;
- to enable students to finance their education and job training by working in national and community service activities; and,
- to allow students to repay their loans as a percentage of their income and to consolidate and simplify the Federal student loan programs.

TITLE II. Amendments to the National and Community Service Act of 1990.

Part A: Creation of the National Service Trust Fund

The National and Community Service Act of 1990 is amended by adding the following new subtitle:

"Subtitle __. National Service Trust Fund.

There is created a National Service Trust Fund to provide educational benefits to participants performing qualified national service.

A. Eligibility of Individuals. Participants shall be eligible to receive educational benefits from the National Service Trust Fund if they:

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--are a citizen of the United States or lawfully admitted for permanent residence;

--are an out-of-school youth or graduated from an institution of higher education in the previous two years; and

--are accepted into and serve for a term defined in section C in a qualified national service placement.

B. Term of Service. Participants shall serve:

--in the case of full-time service of not less than 40 hours per week, for a period of not less than nine months;

--in the case of part-time service of more than an average of [nine?] hours a week for a period of not less than three years.

C. Qualified National Service. Individuals shall serve in positions meeting educational, human service, environmental or public safety needs. As provided in section I, states or the Commission on National and Community Service may designate any of the following as qualified national service:

--service as a VISTA volunteer;

--service in the Peace Corps;

-- service in programs funded under parts C, D, or sections 6 and 7 of part E of this Act;

service in
--programs comparable to those funded under parts C, D, or sections 6 and 7 of part E of this Act that meet quality criteria established by the Commission;

--in the case of an individual who has completed one term of qualified national service, service on the staff of a qualified

national service program;

--service as a service-learning coordinator in a program eligible for funding under subtitle B of this Act; and,

in employer-supported positions,
~~--service in positions determined by the Commission or the state,~~ which provide health insurance to participants and which:

--meet human, educational, environmental or public safety needs; and,

--have been vacant for not less than [twelve months] and are unlikely to be filled in the next [six months] due to a shortage of qualified applicants; **OR**

--are located in an [urban or rural enterprise zone].

D. National Database. Qualified national service positions shall be listed in a national ~~computerized~~ database, accesible through college and high school placement offices, employment service centers, volunteer centers, and other entities.

E. Selection of Participants. Organizations sponsoring qualified national service positions shall select individuals to serve in such positions.

F. Educational Benefits. Participants successfully completing a term of qualified national service shall receive a certificate worth \$5,000 in educational benefits for each such term, up to two terms. Educational benefits may be used for:

--repayment of a qualified federal student loan;

--payment of tuition, fees, room and board at an institution of higher education; or

*National
recruitment
and
placement*

--employment training, including apprenticeship.

G. Remittance of Certificates. The Commission shall remit a payment to eligible entities presenting ~~a~~ completed certificates. A completed certificate shall include a statement, signed by the participant and the eligible entity under penalty of perjury, declaring ~~that the funds are being used for the purposes intended,~~ and may include supporting documentation as required by the Commission. An eligible entity is the holder of a loan described in F (below), an institution of higher education (as defined in the Higher Education Act, section --), or any other entity approved by the Commission.

from the Trust Fund

~~compliance with the terms of this Act~~

H. Qualified Federal Student Loan. A qualified federal student loan is any loan issued or insured by the federal government under Title IV of the Higher Education Act or Title VII of the Public Health Service Act.

I. Designation of Qualified National Service Positions. ~~From funding authority appropriated pursuant to part L, the Commission shall allocate the authority to designate positions eligible for the education benefits certificate described in part P. Authority to designate the recipients of certificates shall be allocated as follows:~~ ~~qualified national service positions~~

This doesn't make sense

~~the authority to designate~~ ^{quarter}
~~not less than one-third~~ to qualified states based on [population];
~~the authority to designate~~ ^{of positions shall be given}
~~not less than one-quarter~~
~~up to one-third~~ to qualified states on a competitive basis; and
~~more than~~ ^{of positions shall be awarded}
~~not less than one-third~~ ^{shall be designated by the Commission or delegates} to public or private nonprofit organizations providing qualified national service opportunities.

-- not more than one-quarter of positions shall be designated by the Commission to federal agencies administering qualified national service programs

January 21, 1993

Such states and organizations shall use criteria established by the Commission in designating positions ~~offering education benefits certificates.~~ ^{qualified national service}

J. Qualified States. For a state to be eligible to designate positions under part I:

--the ~~chief executive officer of~~ such state shall designate a state lead agency responsible for administering the program;

--the state shall have in place a state National Service Commission described in section 178;

--the state ^{Commission} ~~lead agency~~ shall submit a plan, ~~approved by the state Community Service Commission,~~ specifying proposed qualified national service positions within the state, describing a system for ensuring compliance with this subtitle, describing how the state will make child care available for children of participants to the maximum extent practicable, and describing how such positions will be coordinated with other service initiatives within the state; and

--the state shall arrange group activities for participants and make other efforts designed to promote the ethic of service.

K. Commission on National and Community Service. The Commission on National and Community Service shall administer the National Service Trust Fund. The Commission shall:

--in consultation with experts in the field of national service, establish criteria for qualified national service opportunities;

--monitor compliance with the provisions of this subtitle;

--arrange for the national database described in section D;

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--arrange for a national visibility campaign promoting a national service ethic and participation ~~and~~ national service;

in

--provide a national training curriculum for participants to foster a national program identity;

--facilitate the creation of an alumni network of national service participants;

--coordinate this subtitle with other provisions of the Act; *and*

--provide training and technical assistance to states and programs offering qualified national service positions;

L. Authorization of Appropriations. There are authorized to be appropriated:

--to provide education benefits described in section F, [\$X00 million], which shall remain available until expended; and,

--to carry out other activities described in this subtitle, and to administer the National Service Trust Fund, [\$X million]. ”

Part B: Reauthorization and Expansion of the National and Community Service Act.

The National and Community Service Act of 1990 is amended to:

--continue and expand the funding authorization for the Youth Service and Conservation Corps, Serve America, and Model National Service Programs; and,

--add new authority for a Pre-Professional Corps and Public Interest Entrepreneurs.

American
Higher Education
Innovative projects

TITLE III. Federal Family Education Loans.

Section 428A of the Higher Education Act is amended as follows:

A. Establishment of New Loan Program. There is established one federal student loan program to ensure that all students have access to the financial resources to attend college.

B. Loan Limits. Full-time students are entitled to borrow the following amounts annually (students attending part-time or in short-term programs will have lower limits):

	<u>Dependent Students</u>	<u>Independent Students</u>
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergrad years	\$5,500	\$10,500
Aggregate undergrad limit	\$23,000	\$46,000
Graduate	n/a	\$18,500
Aggregate graduate limit	n/a	\$138,500

No student may receive more financial aid from the federal programs than the amount needed to cover the cost of attendance.

C. Repeal of Existing Programs. [The new program incorporates eligibility from Stafford, SLS, and the unsubsidized program].

D. Universal Eligibility. No student shall be denied a loan based on either personal or family income.

E. In-school interest subsidy. Section 428 of the Higher Education Act is amended to provide for a federal interest subsidy for financially needy students, as identified under the needs analysis provisions in section _____. The subsidy would apply to that portion of their loan for which they are eligible, up to a maximum of \$2,625 in the first year, \$3,500 in the second year, \$5,500 in the remaining undergraduate years, and \$8,500 in the graduate years. [Deferral

benefits must also be included].

F. Interest rate. Section 427 is amended such that the interest rate on the loans shall be equal to the 91-day Treasury bills plus 3.1 percent, with a maximum of 9 percent. (The current SLS maximum is 11 percent, so this is a better deal for students).

G. Origination Fee. Borrowers under the federal student loan program shall be charged an origination fee equal to ___ percent of the loan principal. [The level of the fee must be determined based on cost estimates of the overall program -- current origination fee levels on federal student loans are either 5 or 6.5 percent.]

H. Guarantee Fee. Guarantee agencies may charge borrowers a fee as permitted under section ____.

I. Loan Consolidation. Loans made under this program shall be eligible for student loan consolidation as under current law, to simplify repayment for borrowers.

TITLE IV. Establishment of Income-Contingent Repayment Option. (Expansion of §437A on the Higher Education Amendments of 1992).

A. Purpose. It is the purpose of this section to

--establish a program that will allow student borrowers to repay their loans as a percentage of their income over time;

--allow the Secretary to identify and implement other measures to encourage borrowers not participating in the National Service Trust Fund programs to enter into low-paying public service work.

B. Authorization. The Secretary shall establish a program allowing student borrowers under this part or part D to choose to repay their loans on an income-contingent basis. The Secretary is authorized to:

(1) acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who submit a request for income-contingent repayment; and,

(2) to enter into contracts or arrangements with private firms or other agencies of the Government to carry out the purposes of this section.

C. Regulations. The Secretary shall establish the terms and conditions for the income contingent repayment program. The regulations shall:

(1) specify the schedules under which income will be assessed for repayment of loans;

(2) provide for the discharge of any remaining obligation after the borrower has been in repayment status (non-student status) for not more than 25 years; and,

(3) establish other terms and conditions as may be necessary.

[This provides the Secretary with maximum flexibility to address issues such as types of borrowers who can participate (new borrowers, new loans, old borrowers, graduate, etc.); when borrowers opt for the program (and the opt-out procedure, if any); the definition of income (and provisions to protect against hiding of income); the assessment of income (including whether there is an adjustment to reduce negative amortization for lower income borrowers and/or a surcharge for higher income borrowers, and how married couples are treated); etc.].

D. Community Service Incentives. The Secretary, in cooperation with the Commission on National and Community Service, may establish alternative terms, conditions, and discharge provisions to

encourage borrowers to participate in low-paying public service work.

[This permits the Secretary to establish loan forgiveness and/or interest deferral provisions other than those provided for in the income-contingent repayment formula to help borrowers who engage in a particular type of work. For example, the Secretary could pay the interest costs for anyone making less than \$10,000 and working for a charitable corporation providing direct services to low-income or disabled individuals.

E. National Service Loan Forgiveness. To facilitate loan forgiveness under [section ___ of the National and Community Service Act, as amended above], the Secretary of Education is authorized to acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who are engaging in national and community service activities pursuant to [the National Service Trust Fund]. If the participant has loan amounts remaining, or fails to complete the service, the Secretary shall assign the loan to a servicer to resume repayment.

F. Authorization of Appropriation. There are authorized to be appropriated funds for the purchase of loans on behalf of students who will engage in national service and to cover any additional costs associated with part D (Community Service Incentives).

V. Expansion of Direct Lending Demonstration Program.
(§451 of the Higher Education Amendments of 1992 et. seq.)

A. 500 schools. Section ___ is amended to require the Secretary to enter into agreements with not fewer than 400 nor more than 500 institutions of higher education to participate in the direct loan demonstration program. Further amend to allow the program to begin with some schools as early as July 1993.

B. Expansion. After the first year, the Secretary may increase the

number of institutions participating in the program, if the Secretary determines that the Federal government has the administrative capacity to do so.

C. Guaranty Agency protections. Section 453 (e) should be deleted and replaced with two new provisions.

(1) The Secretary shall assure that no guaranty agency's administrative cost allowance (ACA) will be reduced by more than 15% of its level for fiscal year 1992; and,

(2) The Secretary may, for any guarantee agency with a substantial volume of loans under the direct loan demonstration program, reimburse agencies based on a percentage of outstanding loans guaranteed by the agency, rather than 1% of the new loans guaranteed by the agency. (The Secretary may determine the percentage that would be appropriate).

[Current law requires the Secretary to choose schools so as not to reduce the volume of new loans at any guaranty agency by more than 15 percent, and to determine that all affected guaranty agencies "will remain financially sound." This provision places the Secretary in the position of publicly declaring some agencies financially troubled.]

D. Default Reduction. Reduce Federal reinsurance to guaranty agencies by 3 percentage points for every percent of defaults above 2.5%. [Currently, there is a "cliff" of sorts when the default rate reaches 10 percent and the reinsurance rate is reduced to X%. This would instead encourage constant effort to reduce defaults, to counter the incentive created by the bounty on already-defaulted loans.]

TITLE VI. Amendments to the Domestic Volunteer Service Act and to the Peace Corps Act. [If necessary].

§ 101. General Authority

The Commission may make grants on a competitive basis to States, Indian tribes, public and private nonprofit organizations, and institutions of higher education, and may transfer funds to Federal agencies for the planning, operation, and replication of full-, part-time and summer national service programs.

§ 201. Program Requirements

Participants in programs that receive assistance under this subtitle shall ---

- a. perform service that addresses unmet human, educational, environmental or public safety needs, especially those needs relating to poverty.
- b. provide training to participants that --
 1. builds an ethic of civic responsibility through training in citizenship and the ethic of national and community service;
 2. orients each participant in the nature, philosophy and purpose of the program; and
 3. provides the skills and knowledge necessary for the type of service that participants will be called upon to perform.
- c. contains a service-learning component that provides participants with an opportunity to reflect on their service experiences.
- d. involve youth in the design of the program, and provide leadership positions to youth in implementing and evaluating the program.
- e. provide for broad-based input from the community in the design, recruitment, and operation of the program.
- f. prior to the placement of participants, the program will consult with any local labor organization representing employees in the area who are engaged in the same or similar work as that proposed to be carried out by such program.
- g. Provide living allowances pursuant to §
- h. Provide post-service benefits pursuant to §

§ 301. Ineligible service categories. To be eligible to receive assistance under this subtitle, the activities conducted through programs to be funded shall not be conducted by any--

- (1) business organized for profit;

- (2) labor union;
- (3) partisan political organization;
- (4) organization engaged in religious activities, unless such activities do not involve the use of funds provided under this title by program participants and program staff to give religious instruction, conduct worship services, or engage in any form of proselytization; or
- (5) domestic or personal service company or organization.

§ 401 Grants authorized by this subtitle shall be for the planning, demonstration, operation and replication of full-time, part-time, and summer national service programs.

§ 501 Type of Grants

- a. Planning grants - Grants may be made to qualified applicants for the planning of national service programs.
 - i The 5% administrative cost limit shall not apply to planning grants.
 - ii Planning grants may cover a period of up to one year.
- b. Demonstration grants - Grants may be made to qualified applicants for the demonstration of innovative national service programs.
 - i Demonstration grants may cover a period of up to three years.
- c. Operation grants- Grants may be made to qualified applicants for the operation of national service programs.
 - i Operation grants may cover a period of up to three years.
- d. Replication grants- Grants may be made to qualified applicants for the replication of national service programs.
 - i Replication grants may cover a period of up to three years.

§ 901 Conservation and Youth Service Corps.

- a. A youth corps program, as defined in §12511 (30), is one type of national service program eligible for funding under §501.

§ Grants

- a. The Commission shall ensure that programs receiving assistance under this subtitle are geographically diverse and include programs in both urban and rural States.

§1001 Terms of service

(a) Length of service.

- (1) Part-time. An individual performing part-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall agree to perform community service for not less than 2 years.

(2) Full-time. An individual performing full-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall agree to perform community service for not less than 1 year nor more than 2 years, at the discretion of such individual.

(3) Special senior service. A special senior service participant performing national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve for a period of time as determined by the Commission.

(b) Partial completion of service. If the State releases a participant from completing a term of service in a program receiving assistance under this subtitle [42 USCS §§ 12571 et seq.] for compelling personal circumstances as demonstrated by such participant, the Commission may provide such participant with that portion of the financial assistance described in section 146 [42 USCS § 12576] that corresponds to the quantity of the service obligation completed by such individual.

(c) Terms of service.

1.. full-time. An individual performing full time national service under this subtitle shall agree to perform community service for at least nine months per year for a total of at least 1500 hours per year.

b. Part-time - Part-time programs shall operate at least 9 hours per week.

(1) Part-time. A participant performing part-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve for--

(3) Special senior service. A special senior service participant performing national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve either part- or full-time as permitted by the Commission.

§ 12575. Eligibility

(a) Part-time.

(1) Requirements. An individual may serve in a part-time national service program under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(A) is 14 years of age or older; and

(B) is a citizen of the United States or lawfully admitted for permanent residence.

(2) Priority. In selecting applicants for a part-time program, States shall give priority to applicants who are currently employed.

(b) Full-time. An individual may serve in a full-time national service program under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(1) is 14 years of age or older;

(2) has received a high school diploma or the equivalent of such diploma, or agrees to achieve a high school diploma or the equivalent of such diploma while participating in the program; and

(3) is a citizen of the United States or lawfully admitted for permanent residence.

(c) Special senior service. An individual may serve as a special senior service participant under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(1) is 60 years of age or older; and

(2) meets the eligibility criteria for special senior service participation established by the Commission.

§ 12577. Living allowance

(a) Full-time service.

(1) In general. From assistance provided under this subtitle [42 USCS §§ 12571 et seq.], each participant in a full-time national service program receiving assistance under this subtitle [42 USCS §§ 12571 et seq.] shall receive a living allowance of not more than an amount equal to 100 percent of the poverty line for a family of two (as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2))).

(2) Non-Federal sources. Notwithstanding paragraph (1), a program agency may provide participants with additional amounts that are made available from non-Federal sources.

(b) Reduction in existing program benefits. Nothing in this section shall be construed to require a program in existence on the date of enactment of this Act [enacted Nov. 16, 1990] to decrease any stipends, salaries, or living allowances provided to participants under such program.

(c) Health insurance. In addition to the living allowance provided under subsection (a), grantees are encouraged to provide health insurance to each participant in a full-time national service program who does not otherwise have access to health insurance.

(d) Special senior service participant.

(1) Full-time. Each full-time special senior service participant shall receive a living allowance equal to the living allowance provided to full-time participants under subsection (a), and such other assistance as the Commission considers necessary and appropriate for a special senior service participant to carry out the service obligation of such participant.

(2) Part-time. Each part-time special senior service participant shall receive a living allowance equal to a share of such allowance offered to a full-time special senior service participant under paragraph (1), that has been prorated according to the number of hours such part-time participant serves in the program, and such other assistance that the Commission considers necessary and appropriate for a special senior service participant to carry out the service obligation of such participant.

§ 12576. Post-service benefits

(a) Part-time.

(1) The Commission shall annually provide to each part-time participant a nontransferable post-service benefit that is equal in value to \$ 2,000 for each year of service that such participant provides to the program.

(2) Construction. Nothing in this subsection shall be construed to prevent a State from using funds made available from non-Federal sources to increase the amount of post-service benefits provided under paragraph (1) to an amount in excess of that described in such paragraph.

(b) Full-time.

(1) The Commission shall annually provide to each full-time participant a nontransferable post-service benefit that is equal in value to \$ 5,000 for each year of service that such participant provides to the program.

(2) Construction. Nothing in this subsection shall be construed to prevent a State from using funds made available from non-Federal sources to increase the amount of post-service benefits provided under paragraph (1) to an amount in excess of that described in such paragraph.

(c) Special senior service participant. A special senior service participant shall be ineligible to receive post-service benefits under this section.

(d) Indexing. The Commission shall increase the value of post-service benefits provided under this section in each fiscal year based on the increase in the costs associated with attending a 4-year institution of higher education during that fiscal year. The Commission shall determine such increases in costs based on information made available by the Bureau of Labor Statistics and the National Center for Education Statistics.

(e) Post-service benefit.

(1) Part-time. A post-service benefit provided under subsection (a) shall only be used for--

(A) payment of a student loan from Federal or non-Federal sources;

(B) downpayment or closing costs associated with purchasing a first home; or

(C) tuition at an institution of higher education on a full-time basis, or to pay the expenses incurred in the full-time participation in an apprenticeship program approved by the appropriate State agency.

(2) Full-time. A post-service benefit provided under subsection (b) shall only be used for--

(A) payment of a student loan from Federal or non-Federal sources; or

(B) tuition, room and board, books and fees, and other costs associated with attendance (pursuant to section 472 of the Higher Education Act of 1965 (20 U.S.C. 10871l)) at an institution of higher education on a full-time basis, or to pay the expenses incurred in the full-time participation in an apprenticeship program approved by the appropriate State agency.

§ ____ Criteria

(a) In providing assistance to States under this Part, if § 2501.7(b) applies, the Commission will consider:

(1)(i) The quality of the program, based on the program's ability to offer valuable services in the communities where they are needed most and where programs do not exist or where existing volunteer service programs are too limited to meet community needs; to provide productive, meaningful, educational experiences for participants which incorporate service-learning methods; to involve the participants in the design and operation of the program; to involve individuals from diverse backgrounds (including economically disadvantaged youth), and to develop the leadership skills of participants;

(ii) The quality of leadership and management, as measured by the qualifications of the principal leaders of the program; and plans and processes for recruitment, training, supervision, participant support, evaluation, administration and other key activities;

(2) Innovative aspects of the program based on the:

(i) Ability of the program to advance knowledge about effective community service in ways that will be broadly applicable beyond the program location; and

(ii) Approach to evaluation and other means of learning from the experience of the program;

(3)(i) Replicability, based on the ability and willingness of the program to assist others in learning from the experience and replicating the approach of the program; and

(4) Sustainability, based on:

(i) Inclusion in a State Comprehensive Plan;

(ii) Strong and broad-based community support for and involvement in the program; and

(iii) Evidence that financial resources will be available to continue the program after the expiration of the grant.

§ ____ Treatment of Living Allowances and Post Service Benefits.

a. Living allowances and post-service benefits shall not be counted as income under the Internal Revenue Act.

b. Living allowances and post-service benefits shall not be counted in determining eligibility for means-tested Federal programs.

§ ____Administrative costs. Programs receiving grants pursuant to this subtitle, other than a planning grant pursuant to §____, may use no more than 5% of the grant for administrative costs, including indirect costs.

§ ____Evaluation) Program objectives. The Commission shall ensure that programs that receive assistance under this subtitle are evaluated to determine their effectiveness in--

(1) recruiting and enrolling diverse participants in such programs based on economic background, race, ethnicity, age, marital status, education levels, and disability;

(2) promoting the educational achievement of each participant in such programs, based on earning a high school diploma or the equivalent of such diploma and the future enrollment and completion of increasingly higher levels of education;

(3) encouraging each participant to engage in public and community service after completion of the program based on career choices and service in other service programs such as the Volunteers in Service to America Program and older American volunteer programs established under the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4950 et seq.), the Peace Corps (as established by the Peace Corps Act (22 U.S.C. 2501 et seq.)), the military, and part-time volunteer service;

(4) promoting of positive attitudes among each participant regarding the role of such participant in solving community problems based on the view of such participant regarding the personal capacity of such participant to improve the lives of others, the responsibilities of such participant as a citizen and community member, and other factors;

(5) enabling each participant to finance a lesser portion of the higher education of such participant through student loans;

(6) providing services an projects that benefit the community;

(7) supplying additional volunteer assistance to community agencies without overloading such agencies with more volunteers than can effectively be utilized;

(8) providing services and activities that could not otherwise be performed by employed workers and that will not supplant the hiring of, or result in the displacement of, employed workers or impair the existing contracts of such workers; and

(9) attracting a greater number of citizens to public service, including service in the active and reserve components of the Armed Forces, the National Guard, the Peace Corps (as established by the Peace Corps Act (22 U.S.C. 2501 et seq.)), and the VISTA and older American volunteer programs established under the Domestic Volunteer Service Act of 1973 (42 U.S.C. 4950 et seq.).

National Service Corporation Proposed Structure

National Service Corporation

Umbrella agency to implement the National Service Program and after a transition period, administer VISTA, Older American Volunteer Programs and Commission on National and Community Service programs.

Corporation's Board will lend broad base of experience (e.g. service community, labor, education, student representation); strong chair, accountable to President and Congress, would be responsible for day to day policy decisions.

Board responsibilities: review/approve annual policy guidelines; review/approve overall review of grants awarded; receive annual audit reports; sit as a review panel for decertified projects.

Chair responsibilities: hire/fire staff; approval (directly or through delegation to staff) of all grant awards; **investigation of funded programming (through special investigative office)**; day to day management of agency.

[setting priorities]

Corporation Funding and Management Structure

The National Service Corporation will be funded by annual appropriations, but central staff functions will reflect a private enterprise environment, with streamlined organization and performance-based accountability (**budgeting? procurement? Don't we want exemptions for these, too?**). The corporation will be governed by federal law (e.g. Administrative Procedures Act, FOIA, etc.) but central staff will be exempt from standard civil service classifications. In addition, to foster a vibrant environment, employee tenure at the Corporation will generally be limited to not more than five years, **with two-and-a-half year renewable contracts**, as was the case with the Peace Corps in the mid-1960s.

Programs presently administered by ACTION will be maintained as divisions of the new corporation, with their present personnel system **temporarily maintained**, except that regional offices will be phased out. State offices will be maintained. Central functions over a period not to exceed two years will be merged with the new National Service Corporation. [Described more fully below, page 4.]

National Service Corporation staff will be recruited by the Chair; present staff of the Commission and ACTION will be given

priority consideration for new positions, but will not be automatically grandfathered. During transition, new corporation will be authorized to draw on resources of both ACTION and the Commission.

The Corporation will assign a staff representative to work out of each ACTION state office to work with the state commission on the development of State commission plans for Corporation funding.

Non-program Corporation responsibilities

In addition to making grants, the Corporation will be responsible for providing technical assistance, maintaining a national clearinghouse for information, providing unifying materials for all programs, and creating a national advertising campaign. The Corporation may contract out for the performance of these functions.

Inspector General

New National Service Program

The new National Service Program will support a stipend payment during up to two years of service in certified programs, and upon completion of each year of service, participants will earn vested educational benefits. Funds sufficient to pay vested educational benefits will be deposited in a National Service Trust Fund **(is this meant to be independent from ordinary operating/stipend costs -- a separate funding entity? It sounds it....)** at the time an individual is accepted into the program, to be disbursed for certified educational purposes to appropriate educational institutions upon completion of the agreed upon service commitment.

Stipend: Maximum federal contribution based on minimum wage should be approximately equal to the VISTA stipend (which is 105% of poverty). Health and child care benefits will be provided and funded by the corporation. **All such costs will require local matching funds, in accordance with guidelines outlined below. It would be possible for a supported program to fund a stipend above the maximum federal contribution.** A decision will have to be made about whether there should be a maximum permissible supplement to the federal stipend.

Educational Benefit: [For pre-college participants, the educational benefit will be \$5,000 for each full year of service; for post college participation, educational benefits will be the amount of outstanding student loans, up to a maximum of \$10,000 for each full year of service completed. In the case of eligible part time service, volunteers will receive an educational benefit proportional to the service commitment undertaken and completed.]

The benefit structure of the new program (including the stipend and benefit structure) are described more fully in the attached discussion outline.

may need to guarantee by the state

Formula: Funds will be divided between a formula distribution based on population and discretionary awards. Each state, through its independent commission, may submit funding proposals both for the amount of formula funds allocated to the state and for an additional amount that could be funded from the discretionary federal funds. Competing for discretionary funds will be other states, national programs (national implementation of single corps model), and federal agency initiatives. The allocation of funds will be 25 percent by formula and 75 percent discretionary. States which fail to meet minimum performance standards (see below) will lose part or all of their formula allocations, with funds reverting to the discretionary fund.

compliance monitoring

Evaluation: Based on federal guidelines, programs will be required to develop performance criteria and evaluative standards. Once criteria are approved, programs will be required either to contract with independent evaluators to test their success in meeting criteria, or to certify themselves subject to felony penalties described below.

Both state Commissions and the Corporation shall use the evaluation data in their funding decisions. The Commissions shall use the evaluation data to decide which programs to continue funding. The Corporation shall use the data to determine whether state programs are successful.

what about private programs? can match or?

Matching Funds: In order to encourage programs of the highest value and to demonstrate a local commitment to funded programs, the Corporation shall develop a flexible requirement for matching funds, taking into account the difficulties some local programs may have in raising funds independently. The Corporation shall design a statewide matching requirement, ramping up from 20 percent in the first year to 50 percent in the fourth year of the state's program implementation. Within any given state plan, established programs may be asked to bear a greater burden of matching requirements, while new programs are subject to less. It shall be understood that each new project funded will be subject to a phase in of a matching funds requirement, and that on a statewide basis, total matching funds should be at least one-half from the private sector.

National models shall be subject to a (___ percent) private sector match requirement, waveable in special instances. Agency programs shall...

this doesn't work matching.

what about 25 30 40 50 waveable

Recruitment: Recruitment will be both central and at the project level. The Corporation will determine the percentage of participants to be selected from the central list. The corporation may set this percentage on a periodic basis. Applications for the central list may be made at the state or

national office, criteria for selection on the central list shall be determined by the Corporation.

Transition year: During the first year of operation, when state commissions are not fully established, the Corporation should have the option of centrally selecting projects for funding apart from the process described below [using a procedure similar to the Commission's national selection criteria].

Appeals: Programs which are denied desired funding in state plans may appeal the states' decisions to the federal member of the state Commission. That member shall determine whether to present an alternative plan, incorporating the state plan, alongside the state commission report to the Corporation.

Decertification

State Role in Implementation

To participate in the National Service Program, a state must establish a Commission to review project applicants and make recommendations for funding to the National Service Corporation.

The governor shall appoint to the state Commission members representative of the service community, K-12 teachers and administrators, post-secondary teachers and administrators, students and organized labor. The National Service Corporation shall designate one member to serve on each state commission. Total membership on each Commissions shall not exceed ___ members; and no more than 50 percent plus one may be from a single political party. Each commission shall elect its own chair.

State commissions may apply to the National Service Corporation for financial support, but such funding must be matched by matched by state or local government and the private sector. The matching requirement will begin at 20 percent and increase by increments of 10 percent of total costs each year until it reaches fifty percent of total costs, with at least half of the matching funds to come from the private sector.

State commissions will submit comprehensive proposals for funding to the National Service Corporation for approval. The proposals will describe programs which the Commission recommends for funding, and can add up to the same amount or more than the state's formula allocation. These proposals may be approved by the Corporation as a package. If the Corporation does not approve certain proposals for funding, it shall return these items to the Commissions for further revision and later review, while the balance of the State Commission's recommendations are approved and funded.

Existing Federal Programs

Programs now administered by ACTION and the Commission will become divisions of the National Service Corporation.

In the case of ACTION programs, which are directly administered by the agency, existing national and state program offices will be maintained in their present form. ACTION regional offices will be phased out and the functions will be apportioned between the national and state offices.

National and Community Service grant programs will also become divisions of the new National Service Corporation (with Title C and D programs being merged with the new National Service Program). Commission staff will be given priority rights for Corporation staff openings [right of first review].

ACTION administrative functions will be merged with Corporation administrative functions after a transition period of ___ months. At the end of the transition, ACTION will cease to operate independently and any ACTION personnel who have not become Corporation employees shall have severance rights, including priority consideration for federal civil service job openings at other agencies.

Smithsonian Institution

Board:

(1) The Board of Regents is made up of 18 members. The 18 members include the Vice President, the Chief Justice of the United States, three members of the Senate, three members of the House of Representatives, and nine other persons who are not members of Congress.

(2) Of the nine members who are not members of Congress, two must be residents of the District of Columbia. The remaining seven must be inhabitants of some State, but no two can be from the same State.

(3) The members of the Board are appointed as follows:

a. The three members from the Senate appointed by the President of the Senate (the Vice President);

b. the three members from the House appointed by the Speaker of the House;

c. the remaining nine by joint resolution of Congress.

(4) The term of office for the nine non-Congressional members shall be six years. The term for the Senate members shall be for as long as they hold office, without reelection. The term for the House members shall be for two years.

(5) Each member shall be paid traveling and other necessary expenses in attending meetings of the Board. However, no member shall be compensated for his/her role as Regent.

(6) The Board shall elect one of its members to be the Chancellor, who shall be the presiding officer of the Board.

Officers and Compensation:

(1) The Board shall elect from one of its members a Secretary, who shall be the Secretary of the Board. The Secretary and his/her assistants shall receive as compensation such sum as shall be determined by the Board.

(2) The secretary and his/her assistants shall serve at the pleasure of the Board.

Authority:

The Board of Regents of the Smithsonian Institution was created as part of an Act of Congress on August 10, 1846 (18 U.S.C. § 41 et seq.).

Corporation for Public Broadcasting

Board:

(1) The Board is made up of 10 members appointed by the President with advice and consent of the Senate. No more than 6 members may be from the same political party. Regular full-time employees of the United States are not eligible to become members.

(2) Term of office for a Member shall be 5 years. No member shall serve in excess of 2 consecutive terms of 5 years each.

(3) A Chair and one or more Vice-Chairs shall be elected annually by the Board. The Chair and any Vice-Chairs shall not serve more than 2 full one-year terms, and shall serve at the pleasure of the Board.

(4) In terms and compensation, Board members are eligible to receive \$150 per day while attending meetings or other Board activities pursuant to the statute. No member shall receive more than \$10,000 per fiscal year. While traveling away from home, Members are eligible to receive reasonable and necessary expenses. Members shall not be considered officers or employees of the United States by virtue of their Board membership.

Officers and Compensation:

(1) The Corporation shall have a President and such other officers as may be appointed by the Board. The rates of compensation shall be fixed by the Board, but the annual rate shall not exceed Level I of the Executive Schedule under section 5312 of title 5, United States Code.

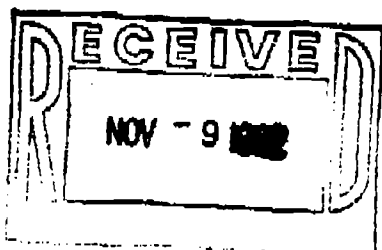
(2) All officers serve at the pleasure of the Board.

Authority:

The Corporation for Public Broadcasting's Board was created as a part of the Public Broadcasting Act of 1967, 47 U.S.C. § 396.

**BY-LAWS
OF THE
CORPORATION FOR PUBLIC BROADCASTING**

*As Amended
July 1989*



ARTICLE I

Offices

Section 1.01. **Registered Office.** The Corporation shall maintain a registered office in the City of Washington, District of Columbia.

Section 1.02. **Other Offices.** The Corporation may also have offices at such other places, either within or without the District of Columbia, as the business of the Corporation may require.

ARTICLE II

Board of Directors

Section 2.01. **General Powers.** The property, affairs and business of the Corporation shall be managed by the Board of Directors.

Section 2.02. **Number, Terms of Office and Qualifications.** The Board of Directors shall consist of the number of Directors required by the Public Broadcasting Act of 1967 and any amendments thereto. The method of appointment of Directors and their terms of office shall be as set forth in the Public Broadcasting Act of 1967 and any amendments thereto. Directors may be salaried officers of the Corporation.

Section 2.03. **The Chairman of the Board.** At each annual meeting of the Board, or at such other time as there may be a vacancy in this office, and, if, as a result of the vacancy, the Board, by majority vote calls for an election, the Board of Directors shall elect, by majority vote, from among its members who have completed a minimum of one full year of service as of the date of such election, a Chairman of the Board. The Chairman shall serve in such capacity for no more than a total of two full one-year terms. The Chairman shall serve at the pleasure of the Board, or until his successor has been duly elected and qualified, or until he shall resign or otherwise vacate his office or Board membership.

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Section 2.06. Place of Meeting. Meetings of the Board of Directors, including the Annual Meeting, will be held at Washington, D.C., or at such other place or places as may be determined by the Board.

Section 2.07. Annual Meeting of the Board. The Annual Meeting of the Board of Directors for the purpose of organization, the election of Chairman and Vice Chairman for the ensuing year, and the transaction of other business shall be held during September of each year on such date and at such hour and at such place as shall be fixed by the Chairman of the Board. However, the Board may vote, by a two-thirds majority, to hold the Annual Meeting during a month other than September, so long as the Annual Meeting occurs no less than 12 months and no more than 15 months from the previous Annual Meeting. Unless the Board has voted to schedule it otherwise, if no Annual Meeting has been scheduled and called by the Chairman of the Board by a date one year from the date of the previous Annual Meeting, then the Vice Chairman of the Board shall call such a meeting. If the Annual Meeting is not called by either the Chairman of the Board or the Vice Chairman of the Board, the Annual Meeting shall be called by the Secretary. Notice of such Annual Meeting shall be given or waived as in the case of special meetings of the Board.

Section 2.08. Regular Meetings. Regular meetings of the Board of Directors shall be held at such intervals as may be fixed by resolution adopted by the Board.

Section 2.09. Special Meetings. Special meetings of the Board of Directors may be actual or telephonic, and shall be held whenever called by the Chairman of the Board (or in his absence, or in the case of a vacancy in the office of the Chairman, by the Vice Chairman of the Board), or by a number of Directors representing not less than one-third of the current Directors serving on the Board, but in no event fewer than three (3) Directors. Notice of each such

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telephonic meeting, in which a quorum is participating, shall be the acts of the Board of Directors. A Director who is present at a regular or special actual meeting of the Board or participating in a special telephonic meeting, but who is required to abstain from participation in the vote upon any matter whether he remains in the meeting or withdraws therefrom during the vote, may be counted for purposes of determining whether or not a quorum is present or participating, and if a quorum is present or participating, the acts with respect to any such matter of a majority of the Directors present or participating who are not required to abstain shall be the acts of the Board. A majority of the Directors present at any regular or special actual meeting, whether or not they shall comprise a quorum, may adjourn the meeting from time to time. Each Director shall be entitled to one vote. Voting rights of Directors may not be exercised by proxy, nor by telephone except during a special telephonic meeting of the Board. Notwithstanding the foregoing, during an emergency period following a national, regional or local catastrophe, a majority of the surviving members of the Board of Directors who have not been rendered incapable of attending or participating shall constitute a quorum.

ARTICLE III

Standing Committees

Section 3.01. **Audit Committee.** After each Annual Meeting of the Board of Directors, the Chairman shall appoint, subject to the approval of the Board, no more than five (5) Directors to serve on the Audit Committee, including one to serve as chairman. The Audit Committee shall be responsible for meeting with and receiving the reports of the outside auditors of the Corporation, shall review internal audits of the Corporation and shall assume such additional duties as may be assigned to it by the Board. The Committee shall report annually to the Board and at such other times as it deems appropriate or when requested to do so by the Board.

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Section 4.02. Election, Term of Office and Qualifications. The officers of the Corporation, except Chairman and Vice Chairman, shall be elected annually at the Board's November meeting for terms beginning in the following January. The Chairman and Vice Chairman shall serve no more than a total of two full one-year terms. However, each officer shall hold his office until his successor shall have been duly elected and qualified in his stead, or until he shall resign or shall have been removed in the manner hereinafter provided. No individual other than a citizen of the United States shall be an officer of the Corporation. Any two or more offices may be held by the same person, except the offices of Secretary and President. Only Board members shall be eligible for election as Chairman of the Board or Vice Chairman of the Board. The Board shall elect as its Chairman only a Board member who has completed a minimum of one full year of service as a Director upon the date of such election.

Section 4.03. Additional Officers. The Board of Directors may elect such other officers as it may deem necessary, each of whom shall have such authority and perform such duties as the Board of Directors may from time to time determine.

Section 4.04. Removal. Any officer elected by the Board of Directors may be removed by the Board of Directors, whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4.05. Resignation. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Board of Directors, or to the Chairman of the Board, or to the President, or to the Secretary. Any such resignation shall take effect at the time specified therein, and, unless otherwise specified therein, the acceptance thereof shall not be necessary to make it effective.

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be selected in accordance with the provisions of these By-Laws; (b) receive, and give receipts for, monies due and payable to the Corporation from any source whatsoever; (c) sign such documents as shall require the signature of the Treasurer; (d) be responsible for the accounting functions of the Corporation including full and accurate accounts of all assets, liabilities, commitments, receipts, disbursements and other financial transactions; (e) see that all expenditures are made in accordance with procedures established from time to time by the Corporation; (f) be responsible for all personnel activities and all administrative activities of the Corporation; and (g) in general, perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him. The Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such sureties as the Board of Directors shall determine.

Section 4.11. General Counsel. The General Counsel is the chief legal officer of the Corporation and provides advice and counsel to the Board of Directors and the Management of the Corporation on legal, public policy, legislative and regulatory matters affecting public broadcasting and the operation of the Corporation. The General Counsel is responsible for, and generally oversees, the conduct of the Corporation's legal affairs, including the retention of outside counsel where appropriate and necessary, and provides representation and legal support services required for day-to-day corporate operations.

Section 4.12. Compensation. The compensation of the officers, and the duration for which it shall be applicable, shall be fixed from time to time by the Board of Directors. No officer of the Corporation, other than the Chairman and the Vice Chairman, shall receive any salary or other compensation from any source other than the Corporation during his period of employment by the Corporation.

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Section 5.02. Loans. To the extent the Board of Directors may specifically authorize, any two of the following, to wit, the Chairman of the Board, the Vice Chairman of the Board, the President, or any other officer, acting together, may effect loans and advances at any time for the Corporation from any bank, trust company or other institution or from any firm or individual and for such loans and advances may make, execute and deliver promissory notes or other evidences of indebtedness of the Corporation, but no officer or officers shall, for purposes of giving security for any such loan or advance, mortgage, pledge, hypothecate or transfer any property whatsoever owned or held by the Corporation, except when specifically authorized by resolution of the Board of Directors.

Section 5.03. Checks, Drafts, Etc. All checks, drafts, orders for the payment of money, bills of lading, warehouse receipts, obligations, bills of exchange and insurance certificates shall be signed or endorsed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board.

ARTICLE VI

Seal

Section 6.01. The Corporation shall have a corporate seal, which shall be in the form adopted by the Board.

ARTICLE VII

Fiscal Year

Section 7.01. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

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The indemnification provided for in this Article shall not be deemed exclusive of any other rights to which such officer, director, or employee may be entitled, under any law, by-law, agreement, vote of the Board of Directors, or otherwise and shall not restrict the power of the Corporation to make any indemnification permitted by law. Indemnification as provided for in this Article shall inure to the benefit of the heirs, executors, administrators, or other legal representatives of an officer, director, or employee.

If any part of this Article shall be found, in any action, suit or proceeding, to be invalid or ineffective, the validity and the effectiveness of the remaining parts shall not be affected.

ARTICLE IX

Amendments

Section 9.01. Any of these By-Laws may be altered, amended, or repealed, and new By-Laws may be adopted, by an affirmative two-thirds majority vote of the Board; provided that (a) such action may be taken only at a meeting of the Board where such action has been identified, in advance, as one of the purposes of the meeting; (b) the notice of such an action at a meeting shall state the substance of the By-Law to be made or repealed, or of the alteration or amendment; and (c) the notice of such an action at a meeting shall be mailed, sent by overnight express service, or delivered personally to each Director at least five (5) days before the date on which the meeting is to be held.

ARTICLE X

Miscellaneous

Section 10.1. Feminine or neuter pronouns shall be substituted for those of the masculine form, and the plural shall be substituted for the singular number, in any place or places herein in which the context may require such substitution.

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DRAFT

National Service Trust Fund Act of 1993

"Give every American the right to borrow money for college by maintaining the Pell grant program, scrapping the existing student loan program, and establishing a National Service Trust Fund. Those who borrow from the fund will be able to choose how to repay the balance: either as a small percentage of their earnings over time, or by serving their communities doing work their country needs."

--Putting People First

Purposes

The purposes of the National Service Trust Fund Act are:

- to inspire in all Americans a new commitment to serving their country, their communities, and their fellow citizens;
- to provide access to higher education and job training for all young Americans, regardless of their economic background;
- to enable students to finance their education and job training by working in national and community service activities; and,
- to allow students to repay their loans as a percentage of their income and to consolidate and simplify the Federal student loan programs.

National and Community Service

The Act establishes a National Service Trust Fund, administered by the Commission on National and Community Service, to provide education benefits -- in the form of scholarships, student loan forgiveness, or job training -- to those who perform qualified national service. For each one-year term of full-time service or three-year term of part-time service, participants will receive benefits worth \$5,000. Participants may serve up to two terms, for a total of \$10,000 in benefits.

Qualified national service includes service in the areas of education, environmental protection, human services, and public safety, such as **VISTA** and the **Peace Corps**, and:

- **Conservation Corps**, ^{engaged in activities} such as rehabilitation and improvement of wildlife habitat, road maintenance, and energy conservation projects.
- **Youth Corps**, serving in nursing homes, child and adult day care centers, law enforcement agencies, and other government agencies.

- **Pre-Professional Corps**, offering training and placement of teachers, police officers, nurses, child care workers, service-learning coordinators, or other professionals.

- **Model National Service Programs** funded by the Commission to promote innovation and experimentation in national service.

- **Public Interest Entrepreneurs**, ^{presenting exemplary} ~~to support~~ individual proposals for community ~~and national~~ service ~~projects~~.

- **Employment in hard-to-fill public service jobs**, such as teachers in high-poverty schools, Head Start staff, or nurses in community health centers.

The Commission will establish criteria for states to use in designating qualifying service positions. Positions will be listed in a national database, and the sponsoring organization will select the participants. Participation will be open to individuals before or after college, ~~or by~~ non-college bound youth, based on the needs of the qualifying program. To expand the number of national service placements available, additional funding for service programs sponsored by states, institutions of higher education, and public or private non-profit organizations will be made available through the National and Community Service Act.

Income-Contingent Repayment to Encourage Service

The Act establishes a program that will allow students to repay their loans as a percentage of their income over time. This will enable graduates to choose **public service professions** or to devote a few years to **national service**, instead of being forced into higher-paying jobs because of their student debt burden. The Secretary of Education will establish the repayment formula and mechanism through the Internal Revenue Service or another entity.

College Opportunity

- **Student Loans.** The National Service Trust Fund Act ensures that any American can afford to go to college through a simplified student loan program. In addition to Pell Grants and other aid already available, the new program will offer loans to cover tuition, supplies, room and board up to:

	Dependent Students	Independent Students
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergraduate years	\$5,500	\$10,500
Graduate students	n/a	\$18,500

Parents of dependent students may borrow additional funds up to the cost of attending the college. Dependent students may borrow a total of \$23,000; independent students may borrow up to \$46,000 as undergraduates and up to \$138,500 as graduate students. For low- and middle-income students, the government will

continue to pay all or part of the interest on loans while the students are in school.

- **A New System.** The Act doubles the size of a test program that provides loans to students directly through schools instead of through the complex guarantee system. This expansion will save taxpayers an estimated \$--- million over five years. The Secretary of Education is authorized to expand the program further if it is successful, saving up to \$1 billion a year.

--**DRAFT** January 21, 1993

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

of pages 3

To: Shirley Sagawa	From: Dick Staufenberger
Dept./Agency:	Phone #: 202-724-0608
Fax #: 401-2788	Fax #:
NSN 7540-01-317-7368	6099-101
GENERAL SERVICES ADMINISTRATION	

MEMORANDUM

TO: Shirley Sagawa

FROM: Dick Staufenberger

RE: National Service Trust Fund

DATE: December 15, 1992

Based on our conversation, the following is my understanding of how the program could work.

Program Design

- The program would provide post service educational benefits for college or to pay off student loans. The benefits would be the rate of \$5,000, for each year of full-time community service. Part-time service (at least 20 hours per week) would receive benefits at a pro rated basis.
- The program would also provide stipends of up to \$8,800 (poverty level family of two) for each year of full-time community service. Part-time service (at least 20 hours per week) would receive benefits at a pro rated basis. The stipends would not be necessary in those programs that already provide for salary (Teach for America) through an existing mechanism. It is also anticipated that the stipend would be on a matching basis e.g. 50% federal 50% local.
- The program would be locally operated by programs that are certified as providing community service and have the ability to put individuals in positions directly providing community service. In essence, local programs would apply to the Commission or other federal entity for both certification and a number of service slots. (The advantage of having programs certified and applying for slots is that it allows them to raise matching money with the clear understanding that the federal government is committed to providing x number of stipends and x number of college voucher funds. Another advantage is that it is easier to administer a program if you are dealing with organizational entities rather than participants. The only disadvantage is that it tends to favor existing entities and that the initial allocation sets the overall structure of the local system for a period of time. For students who have loans, participation in a certified program and slot would carry with it interest deferment.
- The college voucher/loan and stipend part of the program could be financially administered through a National Service Trust Fund.

Program Steps

- Congress establishes a National Service Trust Fund. It appropriates money to the Trust Fund for the number of participants it wishes to support. For example, 25,000 participants x \$5,000 (loan forgiveness or voucher) plus \$4,400 x 20,000 (federal share of stipends 50% assuming 80% of programs/ participants need stipends) cost \$213 million.
- The announcement of the availability is made and local organizations such as East Bay Conservation Corps, City Year, etc. apply for a fixed number of slots. The standards for program certification as well as the standards for slots, must be set and easily understood. For example, existing programs are allowed to grow at ____% or new program could be established with ____ number of slots. It is unclear whether this should be competitive or first come, first serves. Since it is not on entitlement program one could argue that initial application for slots should be competitive. Certification need not be. On the other hand it is easier to administer a first come, first served procedure.
- At the end of each year the local participating organization would send a certified list of those individuals who have completed a year of community service. For those participants who have student loans the trust fund would send a check or interagency transfer to the lending entity (bank, Department of Education). For the other participants who have not yet enrolled in college the money would be held in the fund in escrow for them.
- The fund would only be responsible for stipends (which could be released to the certified entity periodically) and college vouchers. All other monies for program infrastructure, experimental models, special grants would come out of a separate pool.

Program Administration

- The Trust Fund would be similar in administration to other federal funds such as the Black Lung Trust Fund or the Federal Employees Compensation Fund or the Longshore Trust Fund.
- It would be authorizing (based on 25,000 participants in 2,500 certified entities) approximately 55,000 payment per year. (2,500 x 12 monthly payments for stipends and 25,000 end of year payments). (For comparison the FECA fund makes several million payments each year).
- If one assumes a program officer can certify two organizations per day it would take six staff years to certify 2,500 entities (since recertification would

be considerably less staff intensive, the front end work would be much more staff intensive).

- It would take another 4 - 6 staff years to allocate the 25,000 slots for 2,500 organizations. This number of staff would remain fixed.
- Most of the payment system could be administered by an outside contractor. Numerous contractors have the ability to provide the ADP capability to authorize payments to Treasury and track payments. (My rough estimate is that an ADP support service contract would be a several million dollar item.
- In sum, my estimate of the overall cost to administer the Trust Fund would be 15 - 25 staff at a cost of \$750,000 - \$1,250,000 plus 25% miscellaneous overhead costs of \$300,000 (rent, travel, etc.) plus \$3 million for a support service contract. Total cost \$4 - \$4.5 million.

2 OLC 107

2 Op. Off. Legal Counsel 107

(Cite as: 1978 WL 15279 (O.L.C.))

Presidential Appointees--Removal Power or Disciplinary
Action--Constitutional Law (Article II, s 2, cl. 2)

*1 May 17, 1978

MEMORANDUM OPINION FOR THE GENERAL COUNSEL, CIVIL SERVICE
COMMISSION, AND THE GENERAL COUNSEL, PRESIDENT'S REORGANIZATION
PROJECT

This responds to your inquiry whether Congress has the constitutional power to authorize any Federal officer or agency to remove, or otherwise to discipline, Presidential appointees performing executive functions. Pursuant to the Civil Service Commission Reform bill, S. 2640, now pending in Congress, the Merit Systems Protection Board will have no authority to take any action with respect to allegations of misconduct by such Presidential appointees. Instead, the bill instructs the Special Counsel to report the results of any investigation of noncompliance by 'Presidential appointees' directly to the President, thereby leaving to the President the discretion to take whatever action he or she deems appropriate (ss 1206(h)(2), 1206(i)). You ask whether Congress could amend the bill to confer upon the Board the authority to take disciplinary action against such appointees.

First, we address the question of removal. The Supreme Court held in *Myers v. United States*, 272 U.S. 52 (1926), that the Constitution does not grant to Congress any authority to regulate the removal of executive officers appointed by the President. The essence of the Court's ruling is contained in the following statements: The power of removal is incident to the power of appointment, not to the power of advising and consenting to appointment, and when the grant of the executive power is enforced by the express mandate to take care that the laws be faithfully executed, it emphasizes the necessity for including within the executive power as conferred the exclusive power of removal. [Id., at 122] The condition upon which the power of Congress to provide for the removal of inferior officers rests is that it shall vest the appointment in some one other than the President with the consent of the Senate. Congress may not obtain the power and provide for the removal of such officer except on that condition. If it does not choose to entrust the appointment of such inferior officers to less authority than the President with the consent of the Senate, it has no power of providing for their removal. [Id., at 162] Accordingly, when an official performing executive functions is appointed by the President with the advice and consent of the Senate, he or she 'will be subject to removal by the President alone, and any legislation to the contrary must fall as in conflict with the Constitution.' Id., at 163.

The bill, however, exempts from the removal authority of the Merit Systems Protection Board all 'Presidential appointees.' Although not defined in the bill, this term includes both (1)

executive officers appointed by the President with the advice and consent of the Senate, and (2) those 'inferior officers' whose appointment the Congress has vested in the President alone (Art. II, s 2, cl. 2, of the Constitution). Although the Myers case is concerned with the first class of executive officers, dictum suggests that Congress has no greater authority to remove officers appointed by the President alone than it would have over those subjected to the advice and consent process. 272 U.S., at 161- 62. [FN1] We find no reasonable basis for distinguishing between the two types of appointees. [FN2]

*2 The second question presented is whether Congress may confer on the Board the authority to take disciplinary action against Presidential appointees. Disciplinary sanctions contemplated under the bill are: demotion, debarment from Federal employment for a stated period, suspension, reprimand, or civil penalty. s 1207(a). We are aware of no precedents controlling this question, but we believe that Congress does have, and must have, some authority to prescribe sanctions against executive branch officials who act in violation of existing law. The more difficult issue is whether the imposition of those sanctions can be assigned to a body over which the President has limited control. Insofar as Presidential appointees are concerned, we doubt that Congress may take from the President the ultimate authority to act in that manner. This would surely disrupt the appointee's ability to carry out the instructions of the President. The power to demote, suspend, or debar a Presidential appointee from Federal employment carries with it the power to supervise the appointee's actions; more importantly, to take this power away from the President would interfere with the President's duty faithfully to execute the laws. The conclusion is perhaps more doubtful with respect to lesser actions such as reprimand and civil penalties, but here again it is quite likely that disruptions would result. For a Presidential appointee to set aside the time to prepare for a hearing and to follow through with the administrative process contemplated by the bill might be a substantial interference with the President's necessary direction and control of such officials. It would also cloud the line of authority between the President and his subordinates.

The Myers holding proceeded from the view that the power to remove is implicit in the power to appoint and must necessarily be retained by the President if he is to fulfill his constitutional obligation faithfully to execute the laws. A different conclusion cannot be drawn with respect to the imposition of what might be seen as less drastic sanctions.

LARRY A. HAMMOND

Deputy Assistant Attorney General
Office of Legal Counsel

FN1 The pertinent language addressing this issue in the Myers opinion is: Whether the action of Congress in removing the necessity for the advice and consent of the Senate, and putting the power of appointment in the President alone, would make his power

of removal in such case any more subject to Congressional legislation than before is a question this Court did not decide in the Perkins case [United States v. Perkins, 116 U.S. 483]. Under the reasoning upon which the legislative decision of 1789 was put, it might be difficult to avoid a negative answer, but it is not before us and we do not decide it.

FN2 There is another issue that arises whenever the Myers analysis is examined. It relates to the third method outlined in Art. II, s 2, cl. 2, for appointing inferior officers; that clause provides that 'inferior officers' may, if Congress desires, be appointed by the heads of departments. The question is whether, and to what extent, the removal of those officers may be restricted. The Court in Myers made clear that Congress 'may prescribe incidental regulations controlling and restricting . . . the exercise of the power of removal' of inferior officers who perform executive functions and who have been appointed by heads of departments. The Court in Myers also said that Congress could not 'draw to itself or to either branch of it, the power to remove or the right to participate in the exercise of that power.' Id., at 161. The question might be raised if by assigning removal authority to the Merit Systems Protection Board--an independent agency vested with quasi-judicial power--Congress has in some fashion 'drawn to itself' the power of removal. The short answer lies in the Court's analysis in *Weiner v. United States*, 357 U.S. 349, 355-56 (1958), in which the Court made clear that independent regulatory commissions are to be independent not only from the Executive but from Congress. Under the circumstances, we have little doubt about the propriety of the Board taking disciplinary action, including removal, with respect to such inferior officers.

Office of Legal Counsel of the United States Department of Justice
2 OLC 107, 2 Op. Off. Legal Counsel 107, 1978 WL 15279 (O.L.C.)
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5 OLC 337

5 Op. Off. Legal Counsel 337

(Cite as: 1981 WL 30920 (O.L.C.))

The President's Power to Remove Members of the Federal Council on the Aging

*1 The text and legislative history of the statute creating the Federal Council on the Aging indicate that Congress did not intend to restrict the President's power to remove his appointees to the Council. Neither the Council's 'independence' in terms of its membership and staff, nor its function of providing advice to Congress necessarily suggest that Congress intended to restrict the President's power of free removal which is ordinarily incident to his power of appointment.

Because the structure and functions of the Federal Council on the Aging establish that it is a purely executive body, Congress could not constitutionally limit the President's power to remove its members.

November 13, 1981

MEMORANDUM OPINION FOR THE COUNSEL TO THE PRESIDENT

You have asked for our opinion whether the President has the power to remove the members of the Federal Council on the Aging (the Council). In the absence of any evident congressional intent to limit the President's power of removal, and on the basis of well-settled principles of constitutional law, we conclude, for reasons set forth below, that the President does have the power to remove Council members.

I. The Council

The Council is established pursuant to 42 U.S.C. s 3015 (1976 & Supp. III 1979). Its fifteen members are appointed by the President with the advice and consent of the Senate to serve three-year terms. Id. s 3015(a). According to the statute, members 'shall be appointed so as to be representative of rural and urban older Americans, national organizations with an interest in aging, business, labor, and the general public. At least five of the members shall themselves be older individuals.' Id. s 3015(a). Since 1978 amendments, no full-time officer or employee of the federal government may be appointed as a member of the Council, id. 42 U.S.C. s 3015(a) (Supp. III 1979); and the Secretary of Health and Human Services and the Commissioner on Aging are no longer ex officio members of the Council. The statute does not expressly provide for removal of Council members, nor does it expressly insulate them from removal at the pleasure of the President.

Because the nature of the functions performed has come to be the focus of the removal power as a matter of determining both congressional intent and the limits of congressional power to restrict the President's power to remove his appointees, we set out

the Council's duties in full. As prescribed by statute, the Council shall: (1) advise and assist the President on matters relating to the special needs of older Americans; (2) assist the Commissioner [on Aging] in making the appraisal of [personnel] needs [in the field of aging] required by section 3032 . . . ; (3) review and evaluate, on a continuing basis, Federal policies regarding the aging and programs and other activities affecting the aging conducted or assisted by all Federal departments and agencies for the purpose of appraising their value and their impact on the lives of older Americans; *2 (4) serve as a spokesman on behalf of older Americans by making recommendations to the President, to the Secretary [of Health and Human Services], the Commissioner, and to the Congress with respect to Federal policies regarding the aging and federally conducted or assisted programs and other activities relating to or affecting them; (5) inform the public about the problems and needs of the aging, in consultation with the National Information and Resource Clearing House for the Aging, by collecting and disseminating information, conducting or commissioning studies and publishing the results thereof, and by issuing publications and reports; and (6) provide public forums for discussing and publicizing the problems and needs of the aging and obtaining information relating thereto by conducting public hearings, and by conducting or sponsoring conferences, workshops, and other such meetings. 42 U.S.C. s 3015(d) (1976 & Supp. III 1979).

The Council is further directed to undertake a thorough study and evaluation of federal and federally assisted programs for older Americans, including (A) an examination of the fundamental purposes of such programs, and the effectiveness of such programs in attaining such purposes; (B) an analysis of the means to identify accurately the elderly population in greatest need of such programs; and (C) an analysis of numbers and incidence of low-income and minority participants in such programs. 42 U.S.C. s 3015(g)(2) (Supp. III 1979). The study may also include (A) an exploration of alternative methods for allocating funds under such programs to States, State agencies on aging, and area agencies on aging in an equitable and efficient manner, which will accurately reflect current conditions and insure that such funds reach the areas of greatest current need and are effectively used for such areas; (B) an analysis of the need for area agencies on aging to provide direct services within the planning and service area; and (C) an analysis of the number of nonelderly handicapped in need of home delivered meal services. 42 U.S.C. s 3015(g)(3) (Supp. III 1979).

The statute also authorizes staff personnel for the Council and requires the head of each federal department and agency to provide the Council with information and other assistance. 42 U.S.C. s 3015(e) (Supp. III 1979). At least annually, and more often as the Council deems advisable, the Council is required to report its findings and recommendations to the President, who when transmits the report to Congress, with his comments and recommendations. Id. s 3015(f).

II. Statutory Interpretation

In the context of a statute that is silent on the issue of the President's removal power, it is sometimes difficult to separate the statutory analysis from the constitutional analysis. Nevertheless, we focus initially on the statutory scheme and the legislative history because of the familiar injunction that decision on constitutional grounds should be avoided if a statutory ground is sufficient. See *Ashwander v. Tennessee Valley Authority*, 297 U.S. 288, 347 (1936) (Brandeis, J., concurring). The statute itself, as we have noted, is silent on the question of removal. Nevertheless, the history of the Council indicates that Congress could not have intended that its members would not be freely removable by the President.

*3 The Council is the most recent successor to various presidential advisory commissions on the aging. National conferences on aging were held in 1950 and 1952. On March 21, 1956, President Eisenhower summarized recent and proposed actions of the federal government affecting older citizens and announced his intention to create a federal council on aging. Established in April 1956, this first council was composed of representatives of various government agencies. The council called for another conference on aging, which was held in June 1956. Following two congressionally authorized studies of problems related to the aging, the White House Conference on Aging Act of 1958 (Pub. L. No. 85-908, 72 Stat. 1746) was passed to provide for a White House Conference on Aging, to be called by the President in 1961. The Conference made recommendations for continuing and expanding federal and state programs for the elderly, including establishment of a federal coordinating agency. See generally S. Rep. No. 247, 89th Cong., 1st Sess., reprinted in 1965 U.S. Code Cong. & Ad. News 1884.

As a follow-up to the Conference, President Kennedy established the President's Council on Aging in May 1962. Exec. Order No. 11,022, 3 C.F.R. 602 (1959-1963 Comp.). This Council was also composed of Cabinet officers and other federal officials and was directed to study the problems of the aging and make recommendations to the President for policies and programs.

The first statutory authority for an advisory council on aging was provided by the Older Americans Act of 1965, 42 U.S.C. s 3001 et seq. (1976 & Supp. III 1979) which established an Advisory Committee on Older Americans comprised of the Commissioner on Aging and fifteen members appointed by the Secretary of Health, Education, and Welfare (HEW). The Committee was to advise the Secretary on matters bearing on his responsibilities under the Act and related activities of the Department of HEW. Members were selected with experience in the field of interest in the particular problems of aging. See generally, H.R. Rep. No. 1203, 92d Cong., 2d Sess. 8 (1972); H.R. Rep. No. 1150, 95th Cong., 2d Sess. 5, reprinted in 1978 U.S. Code Cong. & Ad. News 3388, 3392. In 1967, the Secretary was authorized to provide staff for the Advisory Committee.

By 1972, Congress noted that the problems, issues, and recommendations of the White House Conference on Aging went far beyond the activities of the Department of HEW. The House

Committee on Education and Labor accordingly recommended the establishment of a presidential advisory committee. The bill, H.R. 15657, 92d Cong., 2d Sess. (1972), would have replaced the Advisory Committee with a national advisory council to 'advise and assist the President on matters relating to the special needs of older Americans.' The Senate version of the bill would have established the Older Americans Advocacy Commission, 'charged with the duty of advocating the interests of older Americans throughout the whole range of federal activities.' See H.R. Rep. No. 43, 93d Cong., 1st Sess. 10, reprinted in 1973 U.S. Code Cong. & Ad. News 1327, 1336. The Commission would also have been empowered to evaluate existing programs to inform the public about the needs and concerns of the aging and the relevant federal activities. Id.

*4 The bill as it emerged from the conference committee was the origin of the present Federal Council on the Aging. The committee adopted that name and consolidated the functions as provided in the House and Senate bills. The bill was later vetoed by the President, but it provided the basis for the 1973 amendments to the Older Americans Act of 1965, which did establish the Council. The House committee in 1973 repeated the conference statement that "[i]t is the intention of the conferees that this body function as more than a passive advisory body, and that it work to actively promote the interests of older Americans throughout the whole range of federal policies and programs affecting them." 1973 U.S. Code Cong. & Ad. News, supra, at 1336. The Council was further charged with undertaking three studies of benefit programs, taxes, and transportation needs.

The Older Americans Act was amended again in 1978. The House report explained that '[a]s a spokesman and advocate on behalf of the elderly, the committee believes that the Council should have a greater degree of independence.' 1978 U.S. Code Cong. & Ad. News, supra, at 3398. The changes that were made 'to strengthen the independence of the Council,' ibid., were precluding full-time employees of the federal government from membership on the Council and specifically authorizing staff for the Council. The first change was intended 'to eliminate the potential for conflicts of interest' and thereby improve the Council's objectivity in making recommendations. Id. at 3398. The second change was designed to relieve the Council's dependence for staff on the Administration on Aging in the belief that the Council 'could be more effective in obtaining information on advising the President and the Congress.' Id. at 3399.

At no time in the long evolution of the present Council did Congress express any intent to limit presidential control, including removal, over the membership. Prior to the statutory authorization in 1965, of course, there could have been no serious contention whatsoever that the presidential appointees were not freely removable. And at no time in the course of enacting the various statutes creating or affecting the Council did Congress ever express a contrary belief or intent.

We do not regard the latest House report's use of the word 'independence' as requiring a different conclusion. [FN1] The report specifically explains that the 'independence' desired for the Council would affect its relationship to other federal

agencies, especially the Commission on Aging, and not the President. This 'independence,' in terms of Council membership and staff, would avoid conflicts of interest and improve the objectivity and efficiency of the Council. Recognizing the President's power to remove creates no conflict of interest. Successor appointees must still exclude full-time federal employees. Nor does removal of the Council's members directly affect its staff. In any event, 'independence' was desired with the specific intent to improve the Council's ability to perform its duty of advising the President. The relationship and responsiveness of the Council to the President was strengthened, not weakened. The removal power is consistent with this relationship. [FN2]

III. Constitutional Analysis

*5 We examine briefly the relevant principles of constitutional law by way of reinforcing our conclusion that the statute does not limit the President's power to remove Council members. [FN3]

We start with the long established rule that '[i]n the absence of all constitutional provision or statutory regulation, it would seem to be a sound and necessary rule, to consider the power of removal as incident to the power of appointment.' In re Hennen, 38 U.S. (13 Pet.) 230, 259 (1839); see also Myers v. United States, 272 U.S. 52 (1926); Sampson v. Murray, 415 U.S. 61, 70 n.17 (1974). The mere specification of a term of office is not such a specific provision. See Parsons v. United States, 167 U.S. 324 (1897); Martin v. Tobin, 451 F.2d 1335 (9th Cir. 1971). Under the general rule, the President's power to appoint the Council members empowers him to remove them. [FN4]

Exceptions to this rule are narrowly defined. Congress can constitutionally restrict the President's power to remove a federal officer only if he or she is a member of a so-called 'independent' agency, not part of the Executive Branch, and the agency's primary functions are quasi-legislative or quasi-judicial and 'require absolute freedom from Executive interference.' Wiener v. United States, 357 U.S. 349, 353 (1958); see Humphrey's Executor v. United States, 295 U.S. 602 (1935).

Although closely allied to the Commission on Aging, which is established in the Office of the Secretary of Health and Human Services, see 42 U.S.C. s 3011(a) (1976 & Supp. III 1979), the Council is not expressly lodged within an executive department. The Council's tions, however, leave no doubt that it is executive in nature. We examine both what the Council does and what it does not do.

By congressional intent expressed in the legislative history and by design embodied in the statute, the Council is an advisory body. It was intended, and its duties as prescribed by statute effectuate the intent, that the Council advise, assist, review, evaluate, advocate, inform, and study. The recipients of the Council's advice, assistance, and recommendations are primarily the President, the Secretary of Health and Human Services, and the Commissioner on Aging; [FN5] and generally, the advice, assistance,

and recommendations are intended to enhance the recipient's own performance of statutory responsibilities. In the context of examining the nature of the functions of another advisory body created to advise an executive department, the District Court for the District of Massachusetts recently recognized that giving advice and making recommendations 'fall into the category of 'purely executive.'" *Martin v. Reagan*, 525 F. Supp. 110, 113 (D. Mass. 1981) (National Institute of Justice Advisory Board). See also *Patino v. Reagan*, Civil No. S-81-469 MLS (E.D. Cal. Sept. 29, 1981) (same).

If the executive nature of the Council's duties left any doubt regarding the inability of Congress to limit the President's power to remove its members, any such doubt is overcome by the fact that the Council performs no quasi- legislative or quasi-judicial functions as those functions are described in the cases. See *Humphrey's Executor v. United State*, supra; [FN6] *Wiener v. United States*, supra. [FN7] In short, there is no basis for concluding that the Council's functions 'require absolute freedom from Executive interference.' *Wiener*, 357 U.S. at 353.

*6 In sum, the text and history of the statute, as interpreted in light of the relevant constitutional principles, impose no limitation on the President's power to remove members of the Council. The President, therefore, has authority to remove them at his pleasure.

LARRY L. SIMMS

Deputy Assistant Attorney General
Office of Legal Counsel

FN1 The concept of 'independence' also appears in the context of the description of the Older Americans Advocacy Commission as created by the Senate version of the 1972 bill. Whatever was meant by the reference, however, the structure did not prevail in the conference committee, which adopted the House version. See S. Conf. Rep. No. 1287, 92d Cong., 2d Sess. 46 (1972). The bill, in any event, was vetoed.

FN2 We attribute very little significance to the fact that the Council, as recently as 1978, was thought to be a source of advice to Congress itself. Congress may, of course, utilize its own committees for the gathering of information, or it may, through its own offices, appoint advisory committees to assist it in the performance of its legislative functions. If, however, Congress creates by statute an advisory body whose primary responsibility is to advise the Executive and, in doing so, Congress places the power of appointment in the President, we believe that Congress must be assumed to have been aware that as a practical matter, the appointees would be dependent on the President as appointing authority, rather than Congress, and that as a constitutional matter, the power of free removal would inhere in the structure chosen.

FN3 The statute, of course, must be construed to avoid an

unconstitutional result. International Ass'n of Machinists v. Street, 367 U.S. 740, 749 (1961); Crowell v. Benson, 285 U.S. 22, 62 (1932).

FN4 The requirement under the statute of Senate advice and consent to the presidential appointees does not in and of itself limit the President's power of removal. Cf. Myers v. United States, 272 U.S. 52, 119-25 (1926).

FN5 Reports to Congress are passed first to the President for his comments and recommendations. See 42 U.S.C. s 3015(f).

FN6 Members of the Federal Trade Commission were held to be protected from removal because the Commission was 'an administrative body created by Congress to carry into effect legislative policies embodied in the statute in accordance with the legislative standard therein prescribed, and to perform other specified duties as a legislative or as a judicial aid.' 295 U.S. at 628.

FN7 Members of the War Claims Commission were held to be protected from removal because they had the responsibility to adjudicate claims against the United States 'according to the law,' i.e., 'on the merits of each claim, supported by evidence and governing legal considerations.' 357 U.S. at 355.

Office of Legal Counsel of the United States Department of Justice
5 OLC 337, 5 Op. Off. Legal Counsel 337, 1981 WL 30920 (O.L.C.)
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National Service Trust Fund Act of 1993

A. Establishment of the National Service Trust Fund

Funds appropriated to the Trust Fund may be used to provide a benefit worth \$10,000 for each year of service to individual completing one or two terms of approved national service.

States and a new National Service Agency will approve national service positions in the areas of education, human services, environment, and public safety from among the following:

- Programs funded in part 3 of section B, below.
- Program comparable to those funded in part 3 of section B, below.
- In the case of individuals who have completed one term of national service in a youth corps program, service on the staff of a youth corps program.
- Service as a service-learning coordinator in a program eligible for funding under part 1 of section B, below.
- Service in employer-support service positions that have been vacant for not less than a year and are unlikely to be filled due to a shortage of qualified applicants and that are located in depressed urban or rural areas.

To guard against displacement of paid workers, the nondisplacement and nonduplication provisions of the National and Community Service Act (NCSA) apply to all positions.

The ability to approve half of national service positions will be awarded to states -- one-fourth of positions to be allocated to states based on population and one-fourth based on a competition. The other half of positions will be awarded on a competitive basis by the National Service Agency -- at least one-fourth directly to public and private non-profit organizations and up to one-fourth to federally run programs or programs sponsored by other federal agencies.

Any recent college graduate of any age or out-of-school youth may participate by applying to and being accepted into a program offering approved national service positions. To assist individuals in locating approved positions, a national database will be established which can be accessed through college placement offices, employment centers, and other appropriate locations.

A minimum term of service qualifying the individual for a \$10,000 benefit is equal to 1500 hours of service over a period of not less than nine months. A part-time term of service of the equivalent number of hours must be completed within three years. A benefit may be used to pay for tuition, fees, room and board at an institution of higher education, to repay qualified federal student loans, or to obtain employment training.

To promote national esprit de corps, the National Service Agency will arrange a national training program for participants, along with a national insignia to be used on uniforms, promotional materials, and other materials of approved programs. It will also arrange for a national visibility campaign promoting national service and facilitate creation of an alumni network of individuals who have participated in national service.

B. Authorization of National Service Programs

To support an infrastructure of national service positions, funding is authorized for stipends and benefits (health care, child care) for participants and for program support. Three types of National Service programs may be supported:

1. School-age service-learning programs, as authorized under subtitle B of the NCSA.
2. Older American programs, including the Older American Volunteer Programs of the Domestic Volunteer Service Act.
3. Full- and part-time national service eligible for benefits through the Trust Fund, including:
 - Youth Corps (as currently authorized in subtitle C and D of the National and Community Service Act);
 - Specialized Service Corps (including Earth Corps, Public Safety Corps, Health Corps, Education Corps, and a Child Welfare Corps);
 - Individual Placement Programs (as currently authorized in subtitle D of the NCSA and VISTA);
 - Professional Corps (including a Police Corps, Teach for America Corps, and Service-Learning Corps); and
 - Public Interest Entrepreneurs.

Stipends for full-time participants will be set locally; however, federal funds may not be used to pay stipends above the poverty line for a family of two (increments above this amount may, however, be paid with non-federal funds). All participants will receive health insurance and child care assistance, if needed.

Three types of support may be made available for full- and part-time national service:

- Single-year planning or start-up grants, available to individuals, states, and public or private non-profit organizations including education institutions;

- Multi-year operations grants, available to states and public or private non-profit organizations wishing to improve or expand existing programs.

- Multi-year replication grants, available to states and public or private non-profit organizations wishing to replicate proven existing programs.

All full- and part-time national service grants will be made on a challenge basis and must be matched dollar for dollar with at least half of the match in cash.

C. Establishment of the National Service Agency

A new National Service Agency, governed by a nine-member Board of Directors, will administer the Trust Fund and the programs described above. The Commission staff and selected ACTION staff will serve as initial staff for the new National Service Agency. The Board of Directors of the National Service Agency will be a bipartisan group appointed by the President and confirmed by the Senate. All Board members will serve on a part-time basis as volunteers with the exception of the Chair, designated by the President, who may serve full-time and receive a salary. The Board will have maximum flexibility to appoint the staff, including an executive director and inspector general, to guard against fraud and abuse.

The National Service Agency would have responsibility for the following functions:

- establishing criteria for approved national service positions and allocating them according to the statute;

- monitoring compliance with the law and ensuring against fraud and abuse;

- arranging for a national database of positions;

- arranging for a national training program for national service participants;

- arranging for a national visibility campaign promoting a national service ethic and participation in national service;
- facilitating creation of an alumni network of national service participants;
- coordinating service programs within the federal government;
- administering the National Service programs described above in section B;
- providing training and technical assistance to states and programs.

D. State Governance

The governor of each state may designate a lead agency and appoint a State National Service Commission responsible for administering the Trust Fund and the National Service programs described above in section B. The State Commission will include representatives of local service program directors and other citizens and will develop a plan for service, including proposed national service placements. The plan must ensure equitable treatment of urban and rural areas within the state and be approved by the governor and the National Service Agency.

A small grant will be made available to each state to develop the plan. Once the plan is approved by the National Service Agency, the state will be eligible to receive an allotment (determined half by a population-based formula and half based on a competition) of national service positions, as well as grants for national service programs described in section B.

TITLE III. Federal Family Education Loans.

Section 428A of the Higher Education Act is amended as follows:

A. Establishment of New Loan Program. There is established one federal student loan program to ensure that all students have access to the financial resources to attend college.

B. Loan Limits. Full-time students are entitled to borrow the following amounts annually (students attending part-time or in short-term programs will have lower limits):

	<u>Dependent Students</u>	<u>Independent Students</u>
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergrad years	\$5,500	\$10,500
Aggregate undergrad limit	\$23,000	\$48,000
Graduate	n/a	\$18,500
Aggregate graduate limit	n/a	\$138,500

No student may receive more financial aid from the federal programs than the amount needed to cover the cost of attendance.

C. Repeal of Existing Programs. [The new program incorporates eligibility from Stafford, SLS, and the unsubsidized program].

D. Universal Eligibility. No student shall be denied a loan based on either personal or family income.

E. In-school interest subsidy. Section 428 of the Higher Education Act is amended to provide for a federal interest subsidy for financially needy students, as identified under the needs analysis provisions in section _____. The subsidy would apply to that portion of their loan for which they are eligible, up to a maximum of \$2,625 in the first year, \$3,500 in the second year, \$5,500 in the remaining undergraduate years, and \$8,500 in the graduate years. [Deferral

benefits must also be included].

F. Interest rate. Section 427 is amended such that the interest rate on the loans shall be equal to the 91-day Treasury bills plus 3.1 percent, with a maximum of 9 percent. (The current SLS maximum is 11 percent, so this is a better deal for students).

G. Origination Fee. Borrowers under the federal student loan program shall be charged an origination fee equal to __ percent of the loan principal. [The level of the fee must be determined based on cost estimates of the overall program -- current origination fee levels on federal student loans are either 5 or 6.5 percent.]

H. Guarantee Fee. Guarantee agencies may charge borrowers a fee as permitted under section ____.

I. Loan Consolidation. Loans made under this program shall be eligible for student loan consolidation as under current law, to simplify repayment for borrowers.

TITLE IV. Establishment of Income-Contingent Repayment Option.
(Expansion of §437A on the Higher Education Amendments of 1992).

A. Purpose. It is the purpose of this section to

--establish a program that will allow student borrowers to repay their loans as a percentage of their income over time;

--allow the Secretary to identify and implement other measures to encourage borrowers not participating in the National Service Trust Fund programs to enter into low-paying public service work.

B. Authorization. The Secretary shall establish a program allowing student borrowers under this part or part D to choose to repay their loans on an income-contingent basis. The Secretary is authorized to:

(1) acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who submit a request for income-contingent repayment; and,

(2) to enter into contracts or arrangements with private firms or other agencies of the Government to carry out the purposes of this section.

C. Regulations. The Secretary shall establish the terms and conditions for the income contingent repayment program. The regulations shall:

(1) specify the schedules under which income will be assessed for repayment of loans;

(2) provide for the discharge of any remaining obligation after the borrower has been in repayment status (non-student status) for not more than 25 years; and,

(3) establish other terms and conditions as may be necessary.

[This provides the Secretary with maximum flexibility to address issues such as types of borrowers who can participate (new borrowers, new loans, old borrowers, graduate, etc.); when borrowers opt for the program (and the opt-out procedure, if any); the definition of income (and provisions to protect against hiding of income); the assessment of income (including whether there is an adjustment to reduce negative amortization for lower income borrowers and/or a surcharge for higher income borrowers, and how married couples are treated); etc.].

D. Community Service Incentives. The Secretary, in cooperation with the Commission on National and Community Service, may establish alternative terms, conditions, and discharge provisions to

encourage borrowers to participate in low-paying public service work.

[This permits the Secretary to establish loan forgiveness and/or interest deferral provisions other than those provided for in the income-contingent repayment formula to help borrowers who engage in a particular type of work. For example, the Secretary could pay the interest costs for anyone making less than \$10,000 and working for a charitable corporation providing direct services to low-income or disabled individuals.

E. National Service Loan Forgiveness. To facilitate loan forgiveness under [section ___ of the National and Community Service Act, as amended above], the Secretary of Education is authorized to acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who are engaging in national and community service activities pursuant to [the National Service Trust Fund]. If the participant has loan amounts remaining, or fails to complete the service, the Secretary shall assign the loan to a servicer to resume repayment.

F. Authorization of Appropriation. There are authorized to be appropriated funds for the purchase of loans on behalf of students who will engage in national service and to cover any additional costs associated with part D (Community Service Incentives).

V. Expansion of Direct Lending Demonstration Program.
(§451 of the Higher Education Amendments of 1992 et. seq.)

A. 500 schools. Section ___ is amended to require the Secretary to enter into agreements with not fewer than 400 nor more than 500 institutions of higher education to participate in the direct loan demonstration program. Further amend to allow the program to begin with some schools as early as July 1993.

B. Expansion. After the first year, the Secretary may increase the

number of institutions participating in the program, if the Secretary determines that the Federal government has the administrative capacity to do so.

C. Guaranty Agency protections. Section 453 (e) should be deleted and replaced with two new provisions.

(1) The Secretary shall assure that no guaranty agency's administrative cost allowance (ACA) will be reduced by more than 15% of its level for fiscal year 1992; and,

(2) The Secretary may, for any guarantee agency with a substantial volume of loans under the direct loan demonstration program, reimburse agencies based on a percentage of outstanding loans guaranteed by the agency, rather than 1% of the new loans guaranteed by the agency. (The Secretary may determine the percentage that would be appropriate).

[Current law requires the Secretary to choose schools so as not to reduce the volume of new loans at any guaranty agency by more than 15 percent, and to determine that all affected guaranty agencies "will remain financially sound." This provision places the Secretary in the position of publicly declaring some agencies financially troubled.]

D. Default Reduction. Reduce Federal reinsurance to guaranty agencies by 3 percentage points for every percent of defaults above 2.5%. [Currently, there is a "cliff" of sorts when the default rate reaches 10 percent and the reinsurance rate is reduced to X%. This would instead encourage constant effort to reduce defaults, to counter the incentive created by the bounty on already-defaulted loans.]

TITLE VI. Amendments to the Domestic Volunteer Service Act and to the Peace Corps Act. [If necessary].

National Service Trust Fund Act of 1993

A. Establishment of the National Service Trust Fund

Funds appropriated to the Trust Fund may be used to provide a benefit worth \$10,000 for each year of service to individual completing one or two terms of approved national service. [Issue: an alternative to raising funds each year for the Trust Fund through appropriations would be to create an actual trust fund. Suggest that we ask OMB to design an actual trust fund to determine if this is workable and a preferred design.]

States and a new National Service Agency will approve national service positions in the areas of education, human services, environment, and public safety from among the following:

- Programs funded in part 3 of section B, below.
- Program comparable to those funded in part 3 of section B, below.
- In the case of individuals who have completed one term of national service in a youth corps program, service on the staff of a youth corps program.
- Service as a service-learning coordinator in a program eligible for funding under part 1 of section B, below.
- Service in employer-support service positions that have been vacant for not less than a year and are unlikely to be filled due to a shortage of qualified applicants and that are located in depressed urban or rural areas.

To guard against displacement of paid workers, the nondisplacement and nonduplication provisions of the National and Community Service Act apply to all positions.

The ability to approve half of national service positions will be awarded to states -- one-fourth of positions to be allocated to states based on population and one-fourth based on a competition. The other half of positions will be awarded by the National Service Agency -- at least one-fourth directly to public and private non-profit organizations and up to one-fourth to federally run programs or programs sponsored by other federal agencies.

Any recent college graduate of any age or out-of-school youth may participate by applying to and being accepted into a program offering approved national service

positions. To assist individuals in locating approved positions, a national database will be established which can be accessed through college placement offices, employment centers, and other appropriate locations.

A minimum term of service qualifying the individual for a \$10,000 benefit is equal to 1500 hours of service over a period of not less than nine months. A part-time term of service of the equivalent number of hours must be completed within three years. A benefit may be used to pay for tuition, fees, room and board at an institution of higher education, to repay qualified federal student loans, or to obtain employment training.

To promote national esprit de corps, the National Service Agency will arrange a national training program for participants, along with a national insignia to be used on uniforms, promotional materials, and other materials of approved programs. It will also arrange for a national visibility campaign promoting national service and facilitate creation of an alumni network of individuals who have participated in national service.

B. Authorization of National Service Programs

To support an infrastructure of national service positions, funding is authorized for stipends and benefits (health care, child care) for participants and for program support. Three types of National Service programs may be supported:

1. Education programs, as authorized under subtitle B of the NCSA.
2. Older American programs, including the Older American Volunteer Programs of the Domestic Volunteer Service Act.
3. Full- and part-time national service eligible for benefits through the Trust Fund, including:
 - Youth Corps (as currently authorized in subtitle C and D of the National and Community Service Act);
 - Specialized Service Corps (including Earth Corps, Public Safety Corps, Health Corps, Education Corps, and a Child Welfare Corps);
 - Individual Placement Programs (as currently authorized in subtitle D of the NCSA and VISTA);
 - Professional Corps (including a Police Corps, Teach for America Corps, and Service-Learning Corps); and

-- Public Interest Entrepreneurs.

Stipends for full-time participants will be set locally; however, federal funds may not be used to pay stipends above the poverty line for a family of two (increments above this amount may, however, be paid with non-federal funds). All participants will receive health insurance and child care assistance, if needed.

Three types of support may be made available for full- and part-time national service:

-- Single-year planning or start-up grants, available to individuals, states, and public or private non-profit organizations including education institutions;

-- Multi-year operations grants, available to states and public or private non-profit organizations wishing to improve or expand existing programs.

-- Multi-year replication grants, available to states and public or private non-profit organizations wishing to replicate proven existing programs.

All full- and part-time national service grants will be made on a challenge basis and must be matched dollar for dollar with at least half of the match in cash.

C. Establishment of the National Service Agency

A new National Service Agency, governed by a nine-member Board of Directors, will administer the Trust Fund and the programs described above. [Note: perhaps the communications people can develop a more exciting name for the agency.] The ACTION and the Commission on National and Community Service will be eliminated, with the Commission staff, and selected ACTION staff, serving as interim staff for the new National Service Agency. [Issue: we need to learn more about what happens when you close down an agency, particularly regarding civil servants. Also, of what value are the ACTION state and regional offices -- can their functions be performed by a central office in Washington?] The Board of Directors of the National Service Agency will be a bipartisan group appointed by the President and confirmed by the Senate. All Board members will serve on a part-time basis as volunteers with the exception of the Chair, designated by the President, who will serve full-time and receive a salary. The Board will have maximum flexibility to appoint the staff, including an executive director. [Issue: with a program such as this, significant effort must be made to monitor against fraud and abuse. An inspector general is probably needed -- what special rules must be followed in setting up an IG office?]

The National Service Agency would have responsibility for the following functions:

- establishing criteria for approved national service positions and allocating them according to the statute;
- monitoring compliance with the law and ensuring against fraud and abuse;
- arranging for a national database of positions;
- arranging for a national training program for national service participants;
- arranging for a national visibility campaign promoting a national service ethic and participation in national service;
- facilitating creation of an alumni network of national service participants;
- coordinating service programs within the federal government;
- administering the National Service programs described above in section B;
- providing training and technical assistance to states and programs.

D. State Governance

The governor of each state may designate a lead agency and appoint a State National Service Commission responsible for administering the Trust Fund and the National Service programs described above in section B. The State Commission will include representatives of local service program directors and other citizens and will develop a plan for service, including proposed national service placements. The plan must ensure equitable treatment of urban and rural areas within the state and be approved by the governor and the National Service Agency.

A small grant will be made available to each state to develop the plan. Once the plan is approved by the National Service Agency, the state will be eligible to receive an allotment (determined half by a population-based formula and half based on a competition) of national service positions, as well as grants for national service programs described in section B.

DRAFTS

January 21, 1993

NATIONAL SERVICE TRUST FUND ACT.

Short Title: National Service Trust Fund Act of 1993.

TITLE I. Purposes. The purposes of this Act are:

- to inspire in all Americans a new commitment to serving their country, their communities, and their fellow citizens;
- to provide access to higher education and job training for all young Americans, regardless of their economic background;
- to enable students to finance their education and job training by working in national and community service activities; and,
- to allow students to repay their loans as a percentage of their income and to consolidate and simplify the Federal student loan programs.

TITLE II. Amendments to the National and Community Service Act of 1990.

Part A: Creation of the National Service Trust Fund

The National and Community Service Act of 1990 is amended by adding the following new subtitle:

"Subtitle __. National Service Trust Fund.

There is created a National Service Trust Fund to provide educational benefits to participants performing qualified national service.

A. Eligibility of Individuals. Participants shall be eligible to receive educational benefits from the National Service Trust Fund if they:

January 21, 1993

--are a citizen of the United States or lawfully admitted for permanent residence;

--are an out-of-school youth or graduated from an institution of higher education in the previous two years; and

--are accepted into and serve for a term defined in section C in a qualified national service placement.

B. Term of Service. Participants shall serve:

--in the case of full-time service of not less than 40 hours per week, for a period of not less than nine months;

--in the case of part-time service of more than an average of [nine?] hours a week for a period of not less than three years.

C. Qualified National Service. Individuals shall serve in positions meeting educational, human service, environmental or public safety needs. As provided in section I, states or the Commission on National and Community Service may designate any of the following as qualified national service:

--service as a VISTA volunteer;

--service in the Peace Corps;

-- service in programs funded under parts C, D, or sections 6 and 7 of part E of this Act;

--service in programs comparable to those funded under parts C, D, or sections 6 and 7 of part E of this Act that meet quality criteria established by the Commission;

--in the case of an individual who has completed one term of qualified national service, service on the staff of a qualified

national service program;

--service as a service-learning coordinator in a program eligible for funding under subtitle B of this Act; and,

in employer-supported positions,
~~--service in positions determined by the Commission or the state,~~ which provide health insurance to participants and which:

--meet human, educational, environmental or public safety needs; and,

--have been vacant for not less than [twelve months] and are unlikely to be filled in the next [six months] due to a shortage of qualified applicants; **OR**

--are located in an [urban or rural enterprise zone].

D. National Database. Qualified national service positions shall be listed in a national computerized database, accessible through college and high school placement offices, employment service centers, volunteer centers, and other entities.

E. Selection of Participants. Organizations sponsoring qualified national service positions shall select individuals to serve in such positions.

F. Educational Benefits. Participants successfully completing a term of qualified national service shall receive a certificate worth \$5,000 in educational benefits for each such term, up to two terms. Educational benefits may be used for:

--repayment of a qualified federal student loan;

--payment of tuition, fees, room and board at an institution of higher education; or

--employment training, including apprenticeship.

G. Remittance of Certificates. The Commission shall remit a payment to eligible entities presenting ~~a~~ completed certificates. A completed certificate shall include a statement, signed by the participant and the eligible entity under penalty of perjury, declaring ~~that the funds are being used for the purposes intended,~~ and may include supporting documentation as required by the Commission. An eligible entity is the holder of a loan described in F (below), an institution of higher education (as defined in the Higher Education Act, section --), or any other entity approved by the Commission.

from the Trust Fund

~~the~~ compliance with the terms of this Act

H. Qualified Federal Student Loan. A qualified federal student loan is any loan issued or insured by the federal government under Title IV of the Higher Education Act or Title VII of the Public Health Service Act.

I. Designation of Qualified National Service Positions. ~~From funding authority appropriated pursuant to part L, the Commission shall allocate the authority to designate positions eligible for the education benefits certificate described in part F. Authority to designate the recipients of certificates shall be allocated as follows: ~~the authority to designate~~ qualified national service positions~~

This doesn't make sense

~~the authority to designate~~
--[not less than one-third] to qualified states based on [population]; of positions shall be given

~~the authority to designate~~
--[up to one-third] to qualified states on a competitive basis; and of positions shall be awarded

~~the authority to designate~~
--[not less than one-third] to public or private nonprofit organizations providing qualified national service opportunities. of positions shall be designated by the Commission or delegate

Such states and organizations shall use criteria established by the Commission in designating positions ~~offering education benefits certificates.~~ *qualified national service*

J. Qualified States. For a state to be eligible to designate positions under part I:

- the chief executive officer of such state shall designate a state lead agency responsible for administering the program;
- the state shall have in place a state National Service Commission described in section 178;
- the state lead agency shall submit a plan, approved by the state Community Service Commission, specifying proposed qualified national service positions within the state, describing a system for ensuring compliance with this subtitle, describing how the state will make child care available for children of participants to the maximum extent practicable, and describing how such positions will be coordinated with other service initiatives within the state; and
- the state shall arrange group activities for participants and make other efforts designed to promote the ethic of service.

K. Commission on National and Community Service. The Commission on National and Community Service shall administer the National Service Trust Fund. The Commission shall:

- in consultation with experts in the field of national service, establish criteria for qualified national service opportunities;
- monitor compliance with the provisions of this subtitle;
- arrange for the national database described in section D;

January 21, 1993

--arrange for a national visibility campaign promoting a national service ethic and participation ~~and~~ national service;
in

--provide a national training curriculum for participants to foster a national program identity;

--facilitate the creation of an alumni network of national service participants;

--coordinate this subtitle with other provisions of the Act; *and*

--provide training and technical assistance to states and programs offering qualified national service positions;

L. Authorization of Appropriations. There are authorized to be appropriated:

--to provide education benefits described in section F, [\$X00 million], which shall remain available until expended; and,

--to carry out other activities described in this subtitle, and to administer the National Service Trust Fund, [\$X million]. *»*

Part B: Reauthorization and Expansion of the National and Community Service Act.

The National and Community Service Act of 1990 is amended to:

--continue and expand the funding authorization for the Youth Service and Conservation Corps, Serve America, and Model National Service Programs; and,

--add new authority for a Pre-Professional Corps and Public Interest Entrepreneurs.

*American
Higher Education
Innovative
projects*

TITLE III. Federal Family Education Loans.

Section 428A of the Higher Education Act is amended as follows:

A. Establishment of New Loan Program. There is established one federal student loan program to ensure that all students have access to the financial resources to attend college.

B. Loan Limits. Full-time students are entitled to borrow the following amounts annually (students attending part-time or in short-term programs will have lower limits):

	Dependent <u>Students</u>	Independent <u>Students</u>
First year	\$2,625	\$6,625
Second year	\$3,500	\$7,500
Remaining undergrad years	\$5,500	\$10,500
Aggregate undergrad limit	\$23,000	\$46,000
Graduate	n/a	\$18,500
Aggregate graduate limit	n/a	\$138,500

No student may receive more financial aid from the federal programs than the amount needed to cover the cost of attendance.

C. Repeal of Existing Programs. [The new program incorporates eligibility from Stafford, SLS, and the unsubsidized program].

D. Universal Eligibility. No student shall be denied a loan based on either personal or family income.

E. In-school interest subsidy. Section 428 of the Higher Education Act is amended to provide for a federal interest subsidy for financially needy students, as identified under the needs analysis provisions in section _____. The subsidy would apply to that portion of their loan for which they are eligible, up to a maximum of \$2,625 in the first year, \$3,500 in the second year, \$5,500 in the remaining undergraduate years, and \$8,500 in the graduate years. [Deferral

benefits must also be included].

F. Interest rate. Section 427 is amended such that the interest rate on the loans shall be equal to the 91-day Treasury bills plus 3.1 percent, with a maximum of 9 percent. (The current SLS maximum is 11 percent, so this is a better deal for students).

G. Origination Fee. Borrowers under the federal student loan program shall be charged an origination fee equal to ___ percent of the loan principal. [The level of the fee must be determined based on cost estimates of the overall program -- current origination fee levels on federal student loans are either 5 or 6.5 percent.]

H. Guarantee Fee. Guarantee agencies may charge borrowers a fee as permitted under section ____.

I. Loan Consolidation. Loans made under this program shall be eligible for student loan consolidation as under current law, to simplify repayment for borrowers.

TITLE IV. Establishment of Income-Contingent Repayment Option.
(Expansion of §437A on the Higher Education Amendments of 1992).

A. Purpose. It is the purpose of this section to

--establish a program that will allow student borrowers to repay their loans as a percentage of their income over time;

--allow the Secretary to identify and implement other measures to encourage borrowers not participating in the National Service Trust Fund programs to enter into low-paying public service work.

B. Authorization. The Secretary shall establish a program allowing student borrowers under this part or part D to choose to repay their loans on an income-contingent basis. The Secretary is authorized to:

(1) acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who submit a request for income-contingent repayment; and,

(2) to enter into contracts or arrangements with private firms or other agencies of the Government to carry out the purposes of this section.

C. Regulations. The Secretary shall establish the terms and conditions for the income contingent repayment program. The regulations shall:

(1) specify the schedules under which income will be assessed for repayment of loans;

(2) provide for the discharge of any remaining obligation after the borrower has been in repayment status (non-student status) for not more than 25 years; and,

(3) establish other terms and conditions as may be necessary.

[This provides the Secretary with maximum flexibility to address issues such as types of borrowers who can participate (new borrowers, new loans, old borrowers, graduate, etc.); when borrowers opt for the program (and the opt-out procedure, if any); the definition of income (and provisions to protect against hiding of income); the assessment of income (including whether there is an adjustment to reduce negative amortization for lower income borrowers and/or a surcharge for higher income borrowers, and how married couples are treated); etc.].

D. Community Service Incentives. The Secretary, in cooperation with the Commission on National and Community Service, may establish alternative terms, conditions, and discharge provisions to

encourage borrowers to participate in low-paying public service work.

[This permits the Secretary to establish loan forgiveness and/or interest deferral provisions other than those provided for in the income-contingent repayment formula to help borrowers who engage in a particular type of work. For example, the Secretary could pay the interest costs for anyone making less than \$10,000 and working for a charitable corporation providing direct services to low-income or disabled individuals.

E. National Service Loan Forgiveness. To facilitate loan forgiveness under [section ___ of the National and Community Service Act, as amended above], the Secretary of Education is authorized to acquire from eligible holders, or to otherwise arrange for the transfer of, the notes of borrowers who are engaging in national and community service activities pursuant to [the National Service Trust Fund]. If the participant has loan amounts remaining, or fails to complete the service, the Secretary shall assign the loan to a servicer to resume repayment.

F. Authorization of Appropriation. There are authorized to be appropriated funds for the purchase of loans on behalf of students who will engage in national service and to cover any additional costs associated with part D (Community Service Incentives).

V. Expansion of Direct Lending Demonstration Program.
(§451 of the Higher Education Amendments of 1992 et. seq.)

A. 500 schools. Section ___ is amended to require the Secretary to enter into agreements with not fewer than 400 nor more than 500 institutions of higher education to participate in the direct loan demonstration program. Further amend to allow the program to begin with some schools as early as July 1993.

B. Expansion. After the first year, the Secretary may increase the

number of institutions participating in the program, if the Secretary determines that the Federal government has the administrative capacity to do so.

C. Guaranty Agency protections. Section 453 (e) should be deleted and replaced with two new provisions.

(1) The Secretary shall assure that no guaranty agency's administrative cost allowance (ACA) will be reduced by more than 15% of its level for fiscal year 1992; and,

(2) The Secretary may, for any guarantee agency with a substantial volume of loans under the direct loan demonstration program, reimburse agencies based on a percentage of outstanding loans guaranteed by the agency, rather than 1% of the new loans guaranteed by the agency. (The Secretary may determine the percentage that would be appropriate).

[Current law requires the Secretary to choose schools so as not to reduce the volume of new loans at any guaranty agency by more than 15 percent, and to determine that all affected guaranty agencies "will remain financially sound." This provision places the Secretary in the position of publicly declaring some agencies financially troubled.]

D. Default Reduction. Reduce Federal reinsurance to guaranty agencies by 3 percentage points for every percent of defaults above 2.5%. [Currently, there is a "cliff" of sorts when the default rate reaches 10 percent and the reinsurance rate is reduced to X%. This would instead encourage constant effort to reduce defaults, to counter the incentive created by the bounty on already-defaulted loans.]

TITLE VI. Amendments to the Domestic Volunteer Service Act and to the Peace Corps Act. [If necessary].

§ 101. General Authority

The Commission may make grants on a competitive basis to States, Indian tribes, public and private nonprofit organizations, and institutions of higher education, and may transfer funds to Federal agencies for the planning, operation, and replication of full-, part-time and summer national service programs.

§ 201. Program Requirements

Participants in programs that receive assistance under this subtitle shall --

- a. perform service that addresses unmet human, educational, environmental or public safety needs, especially those needs relating to poverty.
- b. provide training to participants that --
 1. builds an ethic of civic responsibility through training in citizenship and the ethic of national and community service;
 2. orients each participant in the nature, philosophy and purpose of the program; and
 3. provides the skills and knowledge necessary for the type of service that participants will be called upon to perform.
- c. contains a service-learning component that provides participants with an opportunity to reflect on their service experiences.
- d. involve youth in the design of the program, and provide leadership positions to youth in implementing and evaluating the program.
- e. provide for broad-based input from the community in the design, recruitment, and operation of the program.
- f. prior to the placement of participants, the program will consult with any local labor organization representing employees in the area who are engaged in the same or similar work as that proposed to be carried out by such program.
- g. Provide living allowances pursuant to §
- h. Provide post-service benefits pursuant to §

§ 301. Ineligible service categories. To be eligible to receive assistance under this subtitle, the activities conducted through programs to be funded shall not be conducted by any--

- (1) business organized for profit;

- (2) labor union;
- (3) partisan political organization;
- (4) organization engaged in religious activities, unless such activities do not involve the use of funds provided under this title by program participants and program staff to give religious instruction, conduct worship services, or engage in any form of proselytization; or
- (5) domestic or personal service company or organization.

§ 401 Grants authorized by this subtitle shall be for the planning, demonstration, operation and replication of full-time, part-time, and summer national service programs.

§ 501 Type of Grants

- a. Planning grants - Grants may be made to qualified applicants for the planning of national service programs.
 - i The 5% administrative cost limit shall not apply to planning grants.
 - ii Planning grants may cover a period of up to one year.
- b. . Demonstration grants - Grants may be made to qualified applicants for the demonstration of innovative national service programs.
 - i Demonstration grants may cover a period of up to three years.
- c. Operation grants- Grants may be made to qualified applicants for the operation of national service programs.
 - i Operation grants may cover a period of up to three years.
- d. Replication grants- Grants may be made to qualified applicants for the replication of national service programs.
 - i Replication grants may cover a period of up to three years.

§ 901 Conservation and Youth Service Corps.

- a. A youth corps program, as defined in §12511 (30), is one type of national service program eligible for funding under §501.

§ Grants

- a. The Commission shall ensure that programs receiving assistance under this subtitle are geographically diverse and include programs in both urban and rural States.

§1001 Terms of service

(a) Length of service.

- (1) Part-time. An individual performing part-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall agree to perform community service for not less than 2 years.

(2) Full-time. An individual performing full-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall agree to perform community service for not less than 1 year nor more than 2 years, at the discretion of such individual.

(3) Special senior service. A special senior service participant performing national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve for a period of time as determined by the Commission.

(b) Partial completion of service. If the State releases a participant from completing a term of service in a program receiving assistance under this subtitle [42 USCS §§ 12571 et seq.] for compelling personal circumstances as demonstrated by such participant, the Commission may provide such participant with that portion of the financial assistance described in section 146 [42 USCS § 12576] that corresponds to the quantity of the service obligation completed by such individual.

(c) Terms of service.

1. full-time. An individual performing full time national service under this subtitle shall agree to perform community service for at least nine months per year for a total of at least 1500 hours per year.

b. Part-time - Part-time programs shall operate at least 9 hours per week.

(1) Part-time. A participant performing part-time national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve for--

(3) Special senior service. A special senior service participant performing national service under this subtitle [42 USCS §§ 12571 et seq.] shall serve either part- or full-time as permitted by the Commission.

§ 12575. Eligibility

(a) Part-time.

(1) Requirements. An individual may serve in a part-time national service program under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(A) is 14 years of age or older; and

(B) is a citizen of the United States or lawfully admitted for permanent residence.

(2) Priority. In selecting applicants for a part-time program, States shall give priority to applicants who are currently employed.

(b) Full-time. An individual may serve in a full-time national service program under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(1) is 14 years of age or older;

(2) has received a high school diploma or the equivalent of such diploma, or agrees to achieve a high school diploma or the equivalent of such diploma while participating in the program; and

(3) is a citizen of the United States or lawfully admitted for permanent residence.

(c) Special senior service. An individual may serve as a special senior service participant under this subtitle [42 USCS §§ 12571 et seq.] if such individual--

(1) is 60 years of age or older; and

(2) meets the eligibility criteria for special senior service participation established by the Commission.

§ 12577. Living allowance

(a) Full-time service.

(1) In general. From assistance provided under this subtitle [42 USCS §§ 12571 et seq.], each participant in a full-time national service program receiving assistance under this subtitle [42 USCS §§ 12571 et seq.] shall receive a living allowance of not more than an amount equal to 100 percent of the poverty line for a family of two (as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2))).

(2) Non-Federal sources. Notwithstanding paragraph (1), a program agency may provide participants with additional amounts that are made available from non-Federal sources.

(b) Reduction in existing program benefits. Nothing in this section shall be construed to require a program in existence on the date of enactment of this Act [enacted Nov. 16, 1990] to decrease any stipends, salaries, or living allowances provided to participants under such program.

(c) Health insurance. In addition to the living allowance provided under subsection (a), grantees are encouraged to provide health insurance to each participant in a full-time national service program who does not otherwise have access to health insurance.

(d) Special senior service participant.

(1) Full-time. Each full-time special senior service participant shall receive a living allowance equal to the living allowance provided to full-time participants under subsection (a), and such other assistance as the Commission considers necessary and appropriate for a special senior service participant to carry out the service obligation of such participant.

(2) Part-time. Each part-time special senior service participant shall receive a living allowance equal to a share of such allowance offered to a full-time special senior service participant under paragraph (1), that has been prorated according to the number of hours such part-time participant serves in the program, and such other assistance that the Commission considers necessary and appropriate for a special senior service participant to carry out the service obligation of such participant.

§ 12576. Post-service benefits

(a) Part-time.

(1) The Commission shall annually provide to each part-time participant a nontransferable post-service benefit that is equal in value to \$ 2,000 for each year of service that such participant provides to the program.

(2) Construction. Nothing in this subsection shall be construed to prevent a State from using funds made available from non-Federal sources to increase the amount of post-service benefits provided under paragraph (1) to an amount in excess of that described in such paragraph.

(b) Full-time.

(1) The Commission shall annually provide to each full-time participant a nontransferable post-service benefit that is equal in value to \$ 5,000 for each year of service that such participant provides to the program.

(2) Construction. Nothing in this subsection shall be construed to prevent a State from using funds made available from non-Federal sources to increase the amount of post-service benefits provided under paragraph (1) to an amount in excess of that described in such paragraph.

(c) Special senior service participant. A special senior service participant shall be ineligible to receive post-service benefits under this section.

(d) Indexing. The Commission shall increase the value of post-service benefits provided under this section in each fiscal year based on the increase in the costs associated with attending a 4-year institution of higher education during that fiscal year. The Commission shall determine such increases in costs based on information made available by the Bureau of Labor Statistics and the National Center for Education Statistics.

(e) Post-service benefit.

(1) Part-time. A post-service benefit provided under subsection (a) shall only be used for--

(A) payment of a student loan from Federal or non-Federal sources;
(B) downpayment or closing costs associated with purchasing a first home; or
(C) tuition at an institution of higher education on a full-time basis, or to pay the expenses incurred in the full-time participation in an apprenticeship program approved by the appropriate State agency.

(2) Full-time. A post-service benefit provided under subsection (b) shall only be used for--

(A) payment of a student loan from Federal or non-Federal sources; or
(B) tuition, room and board, books and fees, and other costs associated with attendance (pursuant to section 472 of the Higher Education Act of 1965 (20 U.S.C. 108711)) at an institution of higher education on a full-time basis, or to pay the expenses incurred in the full-time participation in an apprenticeship program approved by the appropriate State agency.

§ ____ Criteria

(a) In providing assistance to States under this Part, if § 2501.7(b) applies, the Commission will consider:

(1)(i) The quality of the program, based on the program's ability to offer valuable services in the communities where they are needed most and where programs do not exist or where existing volunteer service programs are too limited to meet community needs; to provide productive, meaningful, educational experiences for participants which incorporate service-learning methods; to involve the participants in the design and operation of the program; to involve individuals from diverse backgrounds (including economically disadvantaged youth), and to develop the leadership skills of participants;

(ii) The quality of leadership and management, as measured by the qualifications of the principal leaders of the program; and plans and processes for recruitment, training, supervision, participant support, evaluation, administration and other key activities;

(2) Innovative aspects of the program based on the:

(i) Ability of the program to advance knowledge about effective community service in ways that will be broadly applicable beyond the program location; and

(ii) Approach to evaluation and other means of learning from the experience of the program;

(3)(i) Replicability, based on the ability and willingness of the program to assist others in learning from the experience and replicating the approach of the program; and

(4) Sustainability, based on:

(i) Inclusion in a State Comprehensive Plan;

(ii) Strong and broad-based community support for and involvement in the program; and

(iii) Evidence that financial resources will be available to continue the program after the expiration of the grant.

§ ____ Treatment of Living Allowances and Post Service Benefits.

a. Living allowances and post-service benefits shall not be counted as income under the Internal Revenue Act.

b. Living allowances and post-service benefits shall not be counted in determining eligibility for means-tested Federal programs.

25,000
5,000
12,500,000

100,000
10,000
100,000,000
100,000
5,000
500,000,000

NATIONAL SERVICE - NEW PROGRAM COSTING

25,000 new slots for servers X \$17,500 average federal cost/slot (\$10,000 post-service benefit + \$7,500 average stipend, overhead, health and child care contribution)	\$437.5 million
Advertising, outreach, database, esprit de corps' builders, training	\$ 75 million
Venture capital (start-up funding for new service entrepreneurs and replication)	\$ 25 million
Post-service benefit parity for existing programs (\$10,000 X 10,000 participants)	\$100 million
New Agency administration and start-up	\$ 13.5 million
	=====
	*\$650 million

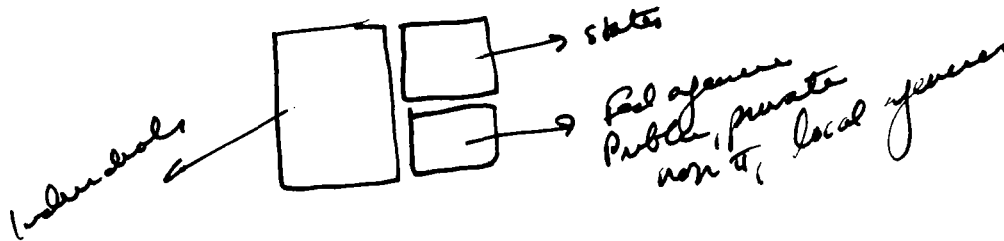
* We have been told by OMB to assume all existing federal programs will receive level funding (vis FY '93 levels). We also understand that other proposed programs, such as the Police Corps, will be separately treated in the Budget.

Existing \$

assumes nothing for K-12, college

	\$250m	
	\$100m	
	\$350m in trust fund	
	300m for other costs	
	\$75m capacity building, system costs	
\$5.5	\$13.5 m admin	
\$2.5	\$191.50 in ~~grants~~ (watched for dollars)	
\$45		
		22.5 hybrid
		100,000 in 4 years
		350.0
		75.0
		13.5
		438.5
		191.50

just first-
post service before
program
living expenses



EXECUTIVE OFFICE OF THE PRESIDENT OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO JACK LEW	Take necessary action	_____
SHIRLEY SAGAWA	Approval or signature	_____
_____	Comment	_____
_____	Prepare reply	_____
_____	Discuss with me	_____
_____	For your information	_____
_____	See remarks below	xxx
FROM Pamela B. VanWie, Labor Branch		DATE May 4, 1993
REMARKS		

Here are explanations regarding advance and forward funding.

Per the GAO glossary of budget terms Advance Funding is defined as the following:

"Budget authority provided in an appropriation act to obligate and disburse funds during a fiscal year from a succeeding year's appropriation. The funds so obligated increase the budget authority for the fiscal year in which obligated and reduce the budget authority of the succeeding fiscal year. Advance funding is a device for avoiding supplemental requests late in the fiscal year for certain entitlement programs should the appropriation for the current year prove to be too low." (Emphasis added)

Basically Advance funding allows an organization to draw down on next year's appropriation thus increasing the agency's current appropriation but decreasing next year's appropriation. Since the Corporation will be funding only as many national service positions as that year's appropriation allows, the Corporation does not need this kind of flexibility. Advance funding is used in cases where there is an additional funding mechanism present outside the budget process like the Black Lung Trust Fund. The Black Lung Trust Fund cannot determine how many Black Lung victims will receive payments in any one year so advance funding authority is necessary. The Black Lung Trust Fund also has an independent funding source in that the Trust Fund is funded by taxes so there will always be money available. The Corporation will not have this kind of Trust Fund. Also this process can get very messy and Congress gets confused as to how much an organization really needs if the agency starts drawing down on the money that is part of next year's appropriation.

Forward Funding according to the glossary is as follows:

"Budget authority that is available for a specified period of time in excess of one fiscal year. This authority generally takes the form of 2-year, 3-year, etc., availability, but may cover periods that do not coincide with the start or end of a fiscal year. For example, the authority may be available from July 1 of one year through September 30 of the following fiscal year (15 months). This type of multiple-year authority is sometimes referred to a "forward funding".

Forward Funding allows planning leeway for the organization. The funding year can be made to fit the needs of the agency. Currently JTPA and education programs use this to fund their programs that must begin with the beginning of the academic year, usually July 1. Since the Corporation will be receiving funds appropriated for its purposes on a regular basis forward funding would be the mechanism that would help the Corporation give funds to organizations in time to plan for the upcoming year.

On the other issue I am still waiting for a response from our General Counsel and I will get back to you as soon as I get a response from her. We may be able to address this issue with some very specific legislative history.

Call if you need more clarification.



The Commission on National and Community Service

Facsimile Transmission

**The National Press Building, Suite 452
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From: Terry Russell

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Message: Shirley
I received a message that you were interested in the issue of whether donations to the Commission were deductible. Donations to the Commission are deductible, pursuant to 26 USC §170(c)(1).

Terry.

DALE BUMPERS, ARKANSAS, CHAIRMAN

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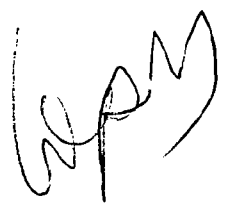
THOMAS G. HOHENTHANNER, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON SMALL BUSINESS

WASHINGTON, DC 20510-6350

April 5, 1993



The Honorable Jack Lew
General Counsel
Office of National Service
The White House
145 Old Executive Office Building
Washington, D.C. 20500

Dear Jack:

The Department of Education is about to publish a notice of proposed rulemaking on the "Loan Forgiveness Demonstration Program," the new Stafford loan cancellation incentive authorized in the 1992 Higher Education Act Amendments and sponsored by Senator Bumpers. Senator Bumpers wrote Secretary Alexander about implementation of this program on December 7, 1992. I believe you have a copy of that letter.

I am writing to ask whether you can obtain a copy for me of the Department's NPRM so that I can review it prior to its publication as a proposed rule. The Department has refused to let me see it even though this proposed rule is the product of a "negotiated rulemaking" and all the participants of that negotiation presumably know its contents. It has also not as yet responded to Senator Bumpers letter, so we have no idea what it is thinking on this subject even in general terms. In the alternative I would ask you to review the Department's NPRM now or when it gets to O.M.B. to ensure that it complies with our December 7 specifications.

This proposed rule is important to you as well as to Senator Bumpers for a variety of reasons.

- * It will be the first regulation issued during the Clinton Administration on the issue of loan forgiveness. It will indicate whether the Administration is, in fact, enthusiastic about the concept of loan forgiveness and how it resolves various policy issues about loan forgiveness.

- * The standards set in this regulation could well later be applied to the President's own loan forgiveness proposals and may even legally bind the Department in interpreting any additional loan forgiveness incentives.

- * The regulation will certainly be cited on various issues during the debate over the President's loan forgiveness proposals.

- * If the regulation undermines Senator Bumpers' program, it will

be embarrassing to both of us and it might force Senator Bumpers to seek additional amendments to the Higher Education Act.

It is in both of our interests to make sure that this regulation enthusiastically reflects the commitment of both Senator Bumpers and President Clinton to loan forgiveness.

I met last week with Maureen McGlaughlin, Acting Assistant Secretary for Postsecondary Education. She is the individual who is responsible for the loan forgiveness regulation. In the course of our discussion she said that the President's own loan forgiveness program would be parallel to the Bumpers loan forgiveness incentive, not a substitute for it. This is the first that I have heard about this approach and it makes sense to me as long as the terms for the two loan forgiveness programs are reasonably consistent. The last thing we need is two different loan forgiveness programs with substantially different terms. That will create competition and confusion.

My meeting with Maureen focused mostly on a contract the Department has let to Westat to research the effectiveness of loan forgiveness. I would be happy to brief you on that meeting and the state of the research on this issue.

I understand that the President's program will be announced on April 19 or 20. Would it make sense for us to meet prior to that announcement? Will Senator Bumpers be consulted about the President's proposals before they are announced? I can be reached at x4-3095.

Thanks very much for your help.

Sincerely,

Chuck Ludlam

CC. Bill Galston
Shirley Sagawa
Gloria Johnson