

Pell Grant Costs Surge—up by \$5.9 billion over 2008

Pell Grant costs are now estimated at \$3.2 billion more than the 2009 Budget Request.

The President had requested an increase of \$2.7 billion, so the total increase in budget authority would be \$5.9 billion.

Sharply rising numbers of applicants caused Budget Service to include a higher estimate in the July 28 Mid-session Review released by OMB (although there is no specific reference to Pell Grants).

The 2009 Appropriations need is now \$20.1 billion compared to \$14.2 billion in 2008 (total increase of \$5.9 billion above the level that would be provided by a full-year continuing resolution).

The increased cost is the cumulative effect of changes in three academic years. Actual recipients and costs are higher for 2007-08 and 2008-09, and we have increased estimates for 2009-10.

We had already estimated higher costs in the February request for Pell Grants because of an increase in the maximum grant from \$4,241 to \$4,310; CCRAA changes that expanded the program; and some applicant growth, but we are now seeing:

- (1) significantly higher numbers of applicants completing the FAFSA;
- (2) more Pell-eligible students attending schools in greater numbers; and
- (3) students qualifying for more need-based aid because of economic factors.

While it is hard to identify all the reasons for the increased applicants, the trend includes both dependent students and older, independent students who tend to qualify for greater amounts of aid. The traditional college-age population has peaked, but there are more people who are 24 and older. Of note is that we have seen increased Pell applicants and recipients in previous periods of economic downturn (claims for food stamps and other need-based programs have seen similar increases).

Issues

(1) Given the likelihood of a continuing resolution at the 2008 level, the new Administration will be faced with a “shortfall” in discretionary appropriations for Pell Grants or the need to increase the 2009 appropriation by as much as \$5.9 billion.

(2) Because the CCRAA of 2007 established a new “mandatory” additional appropriation of up to \$490 for each Pell Grant recipient but explicitly said that the extra awards should be reduced if funds are insufficient, there may need to be an announcement in February 2009 that the extra mandatory awards for up to 6 million students are being cut.

The Big Story: AY 2008-09 Applicant Growth

- After seven months of processing, there are approx. 786,000 more applicants (+ 9.25%) than at the same point last year—the **largest increase in applicants ever over a previous year at the end of July.**
- At the current rate of increase, there will be 1.2 million more applicants in AY 2008-09 than there were in AY 2007-08, of which **556,000 will be Pell recipients** (+ 10%)— the largest one-year increase since AY 2002-03..
- About 41% of the additional applicants are expected to have family incomes of \$30,000 or less and **about 58% of added recipients will have incomes of \$30,000 or less.**
- Applicants between the ages of 24 and 35 have increased by 10.5% over last year. Moreover, applicants over the age of 35 are up 12.8% compared to last year.

June 2008 Applicant Growth Assumptions:

	Dependents	Independents w/Kids	Independents no Kids	Total
AY 2007-08	3.15%	4.21%	3.15%	3.45%
AY 2008-09	6.20%	11.55%	8.23%	8.13%
AY 2009-10	5.00%	6.42%	4.72%	5.37%

Note: Applicant processing is nearly complete for AY 2007-08. Growth rates for AY 2008-09 are based on data through the end of May 2008 (about 57% complete). Students will not apply for AY 2009-10 aid until January 2009.

Factors Associated with Increased Costs

- Applicant Growth: The additional 12% increase in applicants over award years 2007-08 and 2008-09, combined with a higher estimate of applicant growth in AY 2009-10, increased costs by about \$3 billion over the three-year period.
- Updated Economic Assumptions: Decreases in personal income levels and increases in the CPI levels resulted in increased cost estimates of approx. \$47 million in AY 2008-09 and \$91 million in AY 2009-10.
- Increase in the Take-Up Rate: Data from AY 2007-08 demonstrate that eligible Pell students are showing up at schools with greater intensity compared to recent years (an estimated \$1 billion effect over three award years).
- The College Cost Reduction and Access Act (CCRAA): The CCRAA, signed by President Bush in September 2007, provided for changes to the need analysis formula (beginning in AY 2009-10) that will benefit students currently eligible for Pell grants, as well as allowing for more students to qualify for Pell grants (\$1.4 billion in AY 2009-10).
- Higher Maximum Grant: The 2009 budget proposed a \$69 increase in the maximum grant from \$4,241 to \$4,310 (at a cost of approximately \$335 million in AY 2009-10). In addition to the \$69 increase, the CCRAA provided funding for a \$490 mandatory add-on for Pell recipients.

Pell Grants and Funding Shortfalls

- Pell Grant funding shortfalls occur when program costs for a given award year exceed the amount appropriated. The cumulative shortfall reflects this effect across multiple award years.
- Under current Mid-Session Review estimates, an additional \$5.9 billion is needed in FY 2009 (over the FY 2008 funding level) to completely fund the program through AY 2009-10 at a \$4,310 maximum grant. Of the \$5.9 billion, approximately \$2 billion will be used to fund a cumulative shortfall in AY 2008-09, with the remaining \$3.9 billion used to fund CCRAA changes, restore the maximum grant to \$4,310 from the current \$4,241, and account for increased applicant growth in AY 2009-10.
- The current cumulative Pell Grant shortfall through AY 2008-09 represents approximately 13% of the estimated cost of the program.
- The current cumulative Pell Grant shortfall through AY 2009-10 represents approximately 18% of the estimated cost of the program.
- Historically, Pell Grant shortfalls have represented a higher percentage of the program cost. Most recently, for example, in AY 2005-06 the \$4 billion cumulative shortfall represented about 32% of the estimated cost.
- As a result of the large cumulative shortfall in AY 2005-06, the Administration proposed and the Congress adopted, a new rule (Scoring Rule) under which the amount scored for Pell appropriations in years after FY 2006 would be increased to include any cumulative funding shortfalls from previous years or reduced by any surpluses carried over from previous years. The idea was to remove any incentive for providing less money than necessary for Pell Grants. As part of the deal to resolve the situation, Congress also appropriated \$4.3 billion in FY 2006 to fund the accumulated shortfall.

Mandatory Add-On

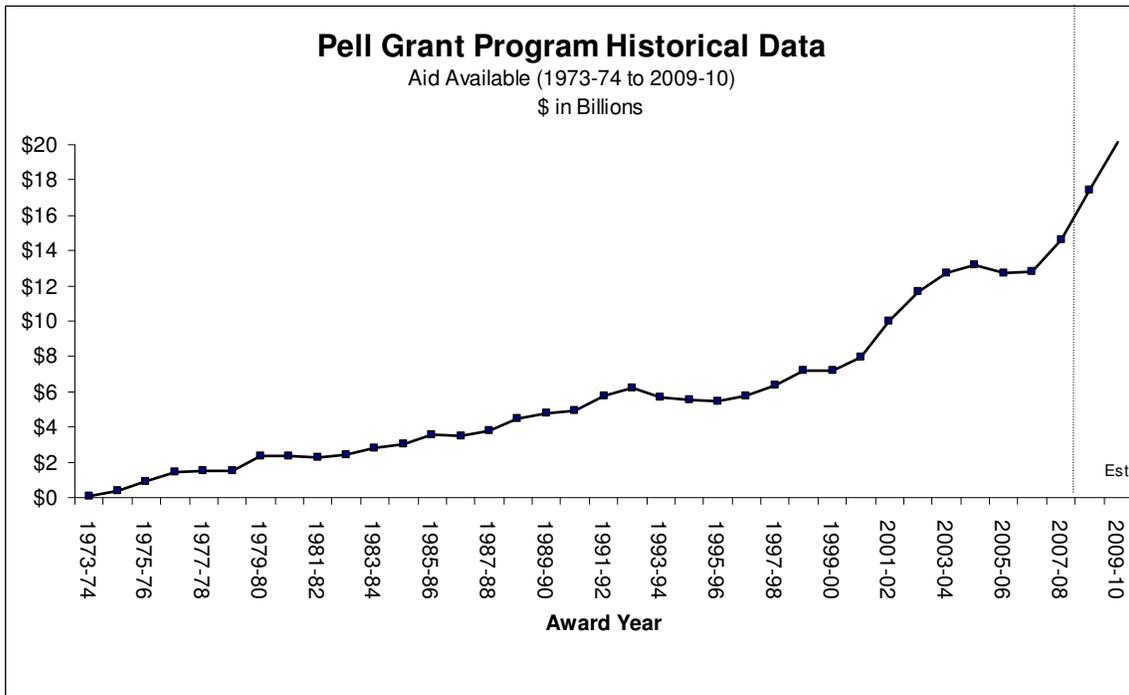
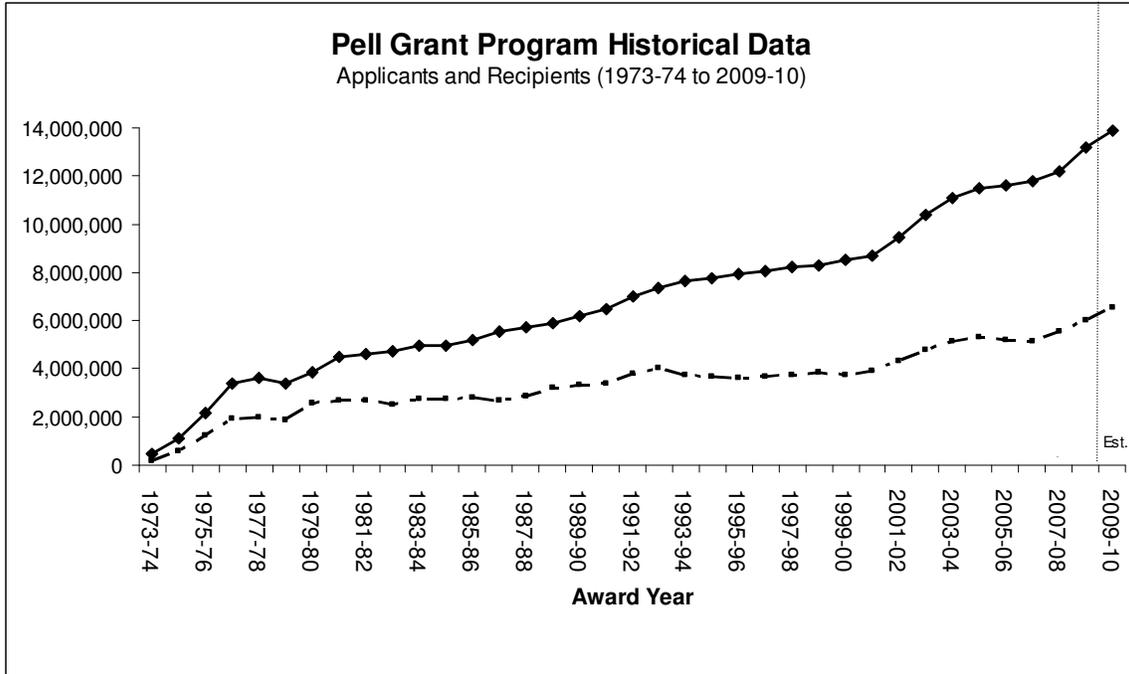
The CCRAA made mandatory funds available (\$2,030 million in AY 2008-09 and \$2,090 million in AY 2009-10) for an add-on to the awards of students who were eligible Pell recipients under the discretionary maximum award. The law also specifies an amount for the add-on (\$490), to be reduced if necessary. Under our latest estimates, the funds available fall short of funding the full add-on:

	AY 2008-09	AY 2009-10
Estimated Cost of \$490 Add-On	\$2,187	\$2,369
Mandatory Funds Available	<u>\$2,030</u>	<u>\$2,090</u>
Current Year Shortfall	(\$157)	(\$279)

Under these estimates, the \$490 add-on specified in CCRAA in both AY 2008-09 and AY 2009-10 would be underfunded by a total of \$436 million (this number would increase to \$569 million under the worst-case scenario). Reducing the add-on to \$400 in AY 2009-10 would eliminate this shortfall.

Issues Regarding Required Ratable Reduction

- Timing of Payment Schedule—the payment schedule for AY 2009-10 must be released in early February 2009. The Department will lack real-time operational data on which to make a decision regarding the sufficiency of funds available for the specified \$490 increase.
- Authority to Use Award Year-Specific Budget Authority Across Years During the Ten-Year Window of Mandatory Funding—The Department is seeking guidance on how best to address the inherent timing problems of the reduction requirement. One solution is to use budget authority associated with a subsequent award year to ensure the amount specified in the payment schedule for the current year can be fully funded. The add-on amounts in future years would be reduced to account for changes in program estimates in prior years. The Department would ensure that the total funds provided for the ten-year window would not be exceeded and awards would be adjusted once operational data were available.
- Pending OGC and OMB opinions and decisions.



Note: Estimates reflect MSR 2009 assumptions and are subject to change.

Federal Pell Grants

Applicant Growth

<u>Award Year</u>	<u>Valid Applicants</u>	<u>Number</u>	<u>% Change</u>
1996-97	8,064,889	129,553	1.63%
1997-98	8,216,685	151,796	1.88%
1998-99	8,309,645	92,960	1.13%
1999-00	8,527,162	217,517	2.62%
2000-01	8,745,584	218,422	2.56%
2001-02	9,505,099	759,515	8.68%
2002-03	10,354,525	849,426	8.94%
2003-04	11,093,506	738,981	7.14%
2004-05	11,539,497	445,991	4.02%
2005-06	11,611,388	71,891	0.62%
2006-07	11,769,079	157,691	1.36%
2007-08	12,175,599	406,520	3.45%
2008-09	13,165,677	990,078	8.13%
2009-10	13,872,308	706,631	5.37%

Notes: Data through AY 2006-07 taken from the AY 2006-07 Pell Grant EOY Report.

Data for award years 2007-08 through 2009-10 are estimates.

A valid applicant is an undergraduate student who submits an application with sufficient data to calculate an EFC and determine Pell grant eligibility.

Estimated Distribution of Pell Grants in AY 2009-10						
<u>Income Level</u>	<u>Recipients</u>	<u>% of Total</u>	<u>Available Aid (\$M)</u>	<u>% of Total</u>	<u>Average Award</u>	
0 - \$ 6,000	1,527,680	23%	\$5,288	26%	\$3,461	
\$6,001 - \$ 9,000	505,579	8%	1,728	9%	3,419	
\$9,001 - \$20,000	1,889,410	29%	5,922	30%	3,134	
\$20,001 - \$30,000	1,089,355	17%	3,727	18%	3,421	
\$30,001 +	1,525,897	23%	3,487	17%	2,285	
TOTAL	6,537,921		\$20,152		\$3,082	

Estimated Distribution of Pell Grants by Type of Institution in AY 2009-10					
<u>Institution Type</u>	<u>Recipients</u>	<u>% of Total</u>	<u>Available Aid (\$M)</u>	<u>% of Total</u>	<u>Average Award</u>
Public 4-Year	1,985,163	30%	\$6,232	31%	\$3,139
Public 2-Year	2,256,712	35%	6,766	33%	2,998
Private	948,598	15%	3,152	16%	3,323
Proprietary	1,347,448	21%	4,002	20%	2,970
TOTAL	6,537,922		\$20,152		\$3,082

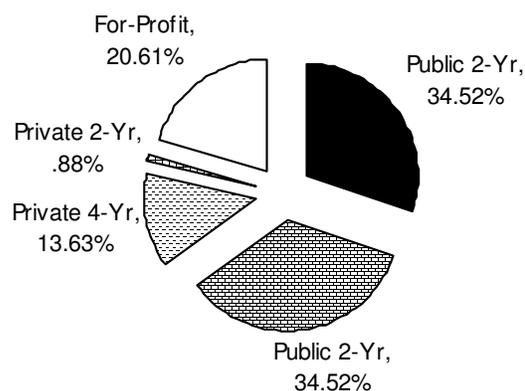
Note: Estimates reflect MSR 2009 assumptions and are subject to change.

FY 2009 PELL GRANT FACTS—Updated for MSR 2009 Estimates

Pell Recipients

- 6.5 million projected recipients in 2009-10:
 - 89% have family incomes under \$40K
 - 30% will receive a maximum Pell award of \$4,800 in 2009-10
 - 47% are over the age of 23
 - 20% are enrolled on a less-than-full-time basis
 - 35% attend 2-year public institutions

AY 2009-10 Pell Grant Recipients by Institution Type and Control



Note: Apprx. 5,200 institutions currently participate in the Pell Grant Program

Pell Grant Award (AY 2009-10)

- The total maximum award proposed at \$4,800, an increase of \$69 over last year's level
- The 2009 Budget request includes a discretionary maximum award of \$4,310, but most recipients will also receive an additional \$490 mandatory award
- Average award estimated at \$3,084—the first time ever over the \$3,000 level
- Maximum award will fund 31% of the average cost of attendance at a four-year public institution

Pell Grant Funding

- Updated to reflect MSR 2009 estimates, an additional \$5.9B is needed over the FY 2008 funding level
- Apprx. \$1.4B of the \$5.9B additional funds needed in FY 2009 would pay for changes mandated in the 2008 College Cost Reduction and Access Act
- Apprx. \$2B of the \$5.9B additional funds needed in FY 2009 would pay for the prior-year cumulative funding shortfall in AY 2008-09.

Changes Under President Bush (FY 2001-09)

- Updated for MSR 2009 estimates, the required funding in FY 2009 reflects:
 - an increase of 152%, or \$13.4 billion, in Pell funding since 2001 (\$8.8B to \$22.2B)
 - an increase of 28%, or \$1,050, in the Pell maximum award since 2001 (\$3,750 to \$4,800)
 - an increase of 51%, or 2.2 million, in the number of additional Pell grant recipients since 2001 (4.3M to 6.5M)