

Legislative and Federal Update, March 19, 2009

Governor's Higher Education Budget Recommendations – A bill to implement the Governor's original budget recommendations will be introduced the week of March 23-27. As soon as the bill receives a hearing, each author will offer a **strike-everything amendment** to implement the Governor's supplemental budget recommendations.

The details on the Governor's supplemental recommendations are expected to be available on March 19 or 20. Overall, the supplemental recommendations do the following:

1. Restore funding cuts for the University of MN and MnSCU
2. Reinvest the money made available by the federal Pell Grant increases into increases in State Grant parameters for award years 2009-2010 and 2010-2011
 - a. **Tuition maximum for students in four-year programs: \$10,576** in FY 2010, **\$11,369** in 2011
 - i. This is an increase of 7.5 percent each year from the 2009 amount, which is \$9,838.
 - b. **Tuition maximum for students in two-year programs: \$6,244** in 2010 and **\$6,712** in 2011
 - i. This is an increase of 7.5 percent each year from the 2009 amount, which is \$5,808.
 - c. **Living and Miscellaneous Expense Allowance: \$6,572** in 2010 and **\$6,966** in 2011
 - i. This is an increase of 6 percent each year from the 2009 amount, which is \$6,200.

Minnesota Senate Budget Plan - Senate leaders proposed a 7 percent across-the-board budget cut this week for both the 2010-11 and the 2012-13 bienniums. The 7 percent reduction, which represents \$2.4 billion in cuts, includes higher education as well as K-12 education. The Senate majority is proposing \$2 billion in new revenue as part of the plan.

Minnesota House Budget Plan – House leaders the House's budget targets will be released by March 20, and may include some new revenue.

Legislative Bonding Bills

- **MN Senate** - the Senate Capital Investment Committee approved SF 781, as amended, yesterday. The higher ed items in the bill were 48 percent of the General Obligation bond total.
 - University of Minnesota - \$59 million
 - University of Minnesota Higher Education Asset Preservation and Replacement - \$35 million
 - Bell Museum of Natural History construction - \$24 million
 - MnSCU - \$76.85 million state share, \$90.28 million total

- MnSCU HEAPR - \$50 million
- North Hennepin Community College Business and Technology Addition - \$9.31 million state share, \$13.97 million total
- MnSCU Classroom Renovation, System wide - \$2,54 million state share, \$3,81 million total
- Lake Superior College Health and Science Addition - \$7.7 million state share, \$11.55 million total
- Metro State Classrooms and Rehabilitation - \$3.8 million state share, \$5.7 million total
- Mesabi Range Community and Technical College - \$3.5 million state share, \$5.25 million total
- The spreadsheet is available online at:
<http://www.senate.leg.state.mn.us/departments/fiscalpol/tracking/2009/CapBud-09-Sen.pdf>
- **MN House** – The Minnesota House has not yet released its bonding bill for 2009. At a hearing on March 17, Rep. Rukavina presented the Higher Education and Workforce Budget Division report on bonding requests. He asked that the projects that were vetoed last year be included and Higher Education Asset Protection and Repair. If there is money to do more, Rep. Rukavina suggested they include as many of the individual projects from the higher ed and workforce bills approved by the Division as possible.
 - As a reminder, the following items were vetoed by the Governor in the 2008 bonding bill (Chapter 179):
 - Bell Museum of Natural History construction - \$24 million
 - MnSCU Classroom Renewal - \$2 million
 - Lake Superior College Health and Science Addition - \$11 million
 - Mesabi Range Community and Technical College - \$5 million
 - Metro State Smart Classroom Center - \$4.98 million
 - North Hennepin Community College Center for Business and Technology - \$13.3 million
 - MnSCU Classroom Renovation, System wide - \$3.63 million

MN Legislature Bill Deadlines:

- March 27 – committees to act on bills in the body of origin
- April 7 – committees to act on bills that met the first deadline in the other body
- April 16 – Divisions of House and Senate finance committees to act on omnibus appropriations bills.
- April 22 – Full House and Senate Finance, Tax, and House Ways and Means Committees to act on omnibus appropriations bills.
- May 7 – Conference committees on omnibus appropriations and tax bills must report bills to the floor.

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- May 12 – All budget, finance and tax bills to be sent to the Governor.
- May 18 – Last day of 2009 regular session.

Federal Update

American Recovery and Reinvestment Act

- State Fiscal Stabilization Funds – Minnesota’s share is \$816.5 million, of which \$667.9 million must be spent on early childhood, K12 and higher education.
 - The Governor and legislature will decide how the money is split between early childhood, K12 and higher education. The Governor’s position will be identified in the supplemental budget recommendations.
 - In order to get the funds, the State must provide appropriations in Fiscal Years 2010 and 2011 at least equal to the level of support in 2006.
 - The funds are to be used to restore funding cuts to the level of support in FY 2008.
 - Governors will apply for the funds by the end of March 2009, and if the applications are accepted, 67% will be provided within two weeks of the approval of the application.
 - In June 2009, Governor’s will provide information on the progress of their States toward the required “assurances” for K12 educational progress as part of their applications for the remaining 33% of the funds. The remaining 33% will be provided to States whose applications are approved in July through September 2009.
 - States have until 9/30/2011 to spend the federal funds.
- Federal Pell Grant Increase – Beginning July 1, 2009 students will be eligible for Pell Grants up to a maximum of \$5,350 in FY 2010 and \$5,550 in FY 2011.
- Federal Work Study Increase – Beginning July 1, 2009 campuses will be eligible for an increase in Federal Work Study funds. Nationally the increase is about 10 percent each year. Campuses will be notified of their allocations for the 2009-2010 award year in April 2009. The allocations are based on information campuses have already provided to the US Department of Education.

Appropriations for Federal Fiscal Year 2009

The 2009 omnibus federal appropriations bill was signed into law on March 11, 2009. It includes appropriations for 9 areas of the budget, including K12 and higher education. Student aid and many other education appropriations in the bill are forward-funded, so they affect award year 2009-2010.

- **Federal Pell Grants** - The bill includes part of the increase in the maximum Federal Pell Grant. The maximum award for the 2009-2010 award year will be \$5,350, which is based on three different federal laws. \$4,360 from the 2009 appropriations bill, \$490 in mandatory

funding from the College Cost Reduction Act of 2007, and \$500 from the American Recovery and Reinvestment Act of 2009.

- **Federal TRIO programs** will receive an additional \$19.9-million, or 2.4 percent, for a total of \$848.1-million
- **Gear Up** will get an additional \$9.8-million, or 3.2 percent, for a total of \$313.2-million.
- **Perkins Loan cancellations** - Colleges would receive an additional \$2.8-million, 4.4 percent more than in the last fiscal year. “The federal government is supposed to reimburse colleges for Perkins Loans that are canceled when students go into public service, but funds for such reimbursements have fallen short in recent years.”
- **Supplemental Educational Opportunity Grants** will be financed at the same level as in 2008.
- **Leveraging Educational Assistance Partnership, or LEAP**, program, which matches each dollar that states commit to need-based aid, will also be flat-financed.

President’s Budget for Federal Fiscal Year 2010

Student aid and many other education appropriations in the budget are forward-funded, so they affect award year 2010-2011.

Federal Pell Grants – The President proposes to continue the maximum Pell Grant at \$5,350 plus inflation through at least 2018. Pell funding would become an entitlement program, no longer subject to annual appropriations, and the maximum award would increase with the consumer price index plus one percentage point.

Federal Student Loans – Currently federally guaranteed student loans are available through banks and other lenders under the Federal Family Education Loan program and through the US Department of Education through the Direct Loan program. In the FFEL program, lenders receive subsidies to provide the loans and loan guarantees. The President’s budget proposes to eliminate the FFEL program, saving \$4 billion per year, and provide all federal student loans through the Direct Loan program. Congress is discussing the idea of including the loan changes in a budget reconciliation bill, which requires a simple majority to pass, rather than the 60 votes usually required in the US Senate.

Federal Perkins Loans – The President proposes to expand the Perkins Loan program to give students an alternative to private student loan programs. The proposal would expand the number of schools offering Perkins Loans from 1,800 to up to 4,400, and increase the number of students receiving Perkins Loans, from 500,000 to 2.7 million, and change the distribution among schools. The loans would carry a 5 percent interest rate, with interest accruing during school, and would be handled by private sector servicers instead of colleges.

- The loan limits would be the same as in the current Perkins program: \$4,000 per year for undergraduate students, \$6,000 per year for graduate and professional students. As with the current program, these loans would not count as part of the total Stafford loan limits.
- The financial aid office at the college would determine who would be offered loans. The proposal envisions greater flexibility for the college than in the current Perkins Loan program.
- Borrowers would have access to the same repayment and forgiveness programs as are available in the Stafford loan program.
- The proposal would not affect borrowers who already have Perkins loans made under the pre-2010 program. As those borrowers repay their loans, the participating schools would remit the Federal share to the Department of Education.

Funding for the Perkins Loan program would increase from \$1.1 billion a year to an estimated \$6 billion a year, and all Title IV participating schools would be eligible to make loans. At this time, it is unclear what would happen to campus contributions to institutions' Perkins Loan revolving funds. One source says the historical allocation formula would be replaced with allocations based on the number of students with financial need at the particular institution. Another source says funds would be distributed to reward schools that provide more need-based aid to students and maintain reasonable student costs relative to other schools in their sector.

American Opportunity Tax Credit – The tax credit of up to \$2,500 per year for money spent on tuition, fees and textbooks (the amount spent after subtracting grants and scholarships) would be made permanent. Families and individuals can take the tax credits for 4 years of undergraduate postsecondary education and the credits are refundable up to \$1,000. Thus, families with no income tax liability with qualifying expenses would be eligible for tax refunds of up to \$1,000.

Financial Aid Simplification – A proposal, currently lacking in specifics, which would allow taxpayers to have their income tax information sent to the US Department of Education to simplify the Free Application for Federal Student Aid.

Improving Retention and Graduation - The budget includes a \$500 million grant program each year for 5 years for a new federal-state-local partnership to improve retention and graduation rates, particularly for low-income college students. The Federal-State partnership builds on the State Grants for Access and Persistence program. A key goal of the program is to learn more about what works, and what doesn't work, in improving student persistence to degree. The Administration intends seek the philanthropic community as potential partners, and expects to make use of the existing Experimental Sites authority, to issue regulatory waivers for the purpose of research on programs to improve persistence. States would have flexibility in the types of programs that can be funded, but they all must include a rigorous research component.

States would be allowed to set aside a portion of their funding to continue college outreach and information activities now made through FFEL subsidies.

Budget Resolution and Reconciliation – Some of the President’s proposals may be taken up as part of the budget resolution, particularly the FFEL loan changes. The US House expects to take up the budget resolution the week of March 30. Budget resolutions are easier to pass than other bills; they only require 51 votes in the US Senate.

As NASFAA says:

The next step in the budget process is House and Senate consideration of the Congressional **Budget Resolution**. A Budget Resolution is a legislative device that, for the upcoming fiscal year, binds Congress to certain parameters guiding appropriations, tax, and other fiscal policy decisions. This affects what other committees may or must do when it comes to economic policy and actual spending or tax benefit decisions. While a Budget Resolution does not instruct congressional committees on exactly what their policy decisions must include, it does require that they not violate the overall money limits contained in the Budget Resolution.

Currently, congressional leaders are considering using the **Budget Reconciliation** process in this Budget Resolution to **implement provisions in the Administration’s 2010 fiscal year budget, including the president’s student aid recommendations**. In its essence, Reconciliation is a budget device that requires congressional committees to meet a specified spending reduction amount to be used to reduce the deficit by cutting funding to entitlement programs under the committee’s jurisdiction. Occasionally, instead of used for deficit reduction, Reconciliation is written in such a way allowing the use of those savings to increase funding for various other programs under a committee’s jurisdiction.

The Budget Reconciliation process also limits debate, puts implementing legislation on a fast track, and limits policy options and alternatives. **If Congress opts to use the Budget Reconciliation process for the FY2010 Budget mandatory funding of the Pell Grant, financed in part by the elimination of the FFEL Program, may move forward very rapidly.**

In light of these budget proposals and the recent student loan credit crunch, it is evident that the FFEL program will soon change radically, or be eliminated entirely.