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# A Primer on Higher Education, Student Aid, and the Federal Budget Process

## Cover Page Footnote

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# A Primer on Higher Education, Student Aid, and the Federal Budget Process

**By Jenna Sablan and Robyn Hiestand**

***While higher education scholars and financial aid practitioners are understandably concerned with the role of policy and finance, the relationship between student aid policy and the federal budget process deserves attention and synthesis. In this article, we present an outline of the federal budget process and the ways in which it has been a vehicle for major student financial aid policy changes. We specifically describe the federal funding structure of Pell Grants and student loans and describe how the Congressional budget reconciliation process has resulted in recent policy changes in these programs.***

***Keywords:*** *Budget reconciliation, Pell grants, federal financial aid, Congress*

This piece explores the relationship between student aid policy and the federal budget process. Much of the research literature on student aid considers the effectiveness of aid on student access and outcomes and the student experience in affording college (Dynarski & Scott-Clayton, 2013; Goldrick-Rab, 2016). Policy-relevant research on the effectiveness of student aid is important for practitioners and advocates to understand how to improve student aid, but so too is an understanding of the political and procedural process by which changes to student aid can take place. In this article, we present an outline of the federal budget process and how it has been a vehicle for major student financial aid policy changes in recent decades.

The federal budget process defined is the process by which Congress reviews spending and revenues for the coming year as outlined in Title III of the Congressional Budget Act (Public Law 93-344). Its recent influence on student aid policy warrants attention among higher education professionals. While political scientists have engaged with the political and procedural aspects of federal budgeting, including the budget resolution and reconciliation processes (Reynolds, 2017b), higher education scholars tend to focus on the more direct aspects of the effects of financial aid.

Yet, significant recent developments in student aid policy have been achieved through federal budget and appropriations processes rather than "regular order" legislation. Thus, there exists some possibility that future changes can occur this way absent a thorough reauthorization of the Higher Education Act (HEA), the main authorizing legislation of student aid (Madzelan, 2015). The purpose of this article is to describe the federal budget process and its implications for higher education and student aid practitioners particularly as it relates to student aid policy reforms.

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First, we review the federal budget process in Congress. The federal budget process encompasses how Congress sets spending limits as well as a special process, budget reconciliation, which can result in changes to existing law related to spending and taxation, such as the financial aid programs (Heniff, 2015, 2016; Reynolds). We also describe the structure of the budget, including the types of spending of the federal government, specifically discretionary and mandatory spending. The structure of the federal budget and the process Congress uses to set its budget and spending influences how student aid is structured and funded (Lynch, 2010).

We then review the structure of higher education finance at the federal level to provide some basic understanding of how major student aid programs are funded. The next section describes major changes to student aid that have occurred through federal budget process, specifically budget reconciliation, and the final section discusses future policy problems related to student aid. We conclude with observations of how understanding the politics and procedure of the federal budget process is an essential tool for higher education practitioners, scholars, and policy-makers concerned about college affordability and higher education finance.

To some, the federal budget process may seem like an overly technical process guided by arcane Congressional procedures. We endeavor to show how understanding this Congressional process can inform practitioner and policy knowledge about how student aid is reformed.

## What is the Federal Budget Process?: Budget Resolutions and Reconciliation in Congress

According to Article I of the Constitution, the "power of the purse" resides in Congress, which controls revenue (taxing) and appropriations (funding). While the power to tax and spend has long existed, the modern idea of a federal budget process began in the 1970s with the Congressional Budget and Impoundment Control Act of 1974, which established a congressional budget process to enforce spending limits (Dharmapala, 2006; Reynolds, 2017a; Saturno, Heniff, Lynch, & Tollestrup, 2012). The purpose of the modern federal budget process was to provide an "overall legislative framework" to coordinate Congress's various revenue and spending functions (Saturno et al., 2012). In the federal budget process, we review major steps including: (a) the President's budget request; (b) Congressional budget resolutions; and (c) budget reconciliation.

The federal budget process generally begins the first Monday in February with the release of the President's budget for the coming fiscal year (Center for Budget and Policy Priorities, 2017; Saturno et al., 2012). The President's annual budget contains data and estimates of spending, revenue, deficit (amount by which government spends more than it takes in in revenue), and debt (amount borrowed by the government). The President's budget also signals the President's policy priorities and recommended programmatic changes to spending, revenue, deficit, and debt. The President's budget request is a request—Congress controls the power to raise revenue and set spending, and can many times set appropriations that deviate drastically from the President's budget. The next phase of the federal budget process involves Congressional procedures, the main focus of this article.

Once the President's budget is released, Congress begins its review of the President's budget proposal through the Congressional hearing process, in the House and Senate Budget Committees, the committees with jurisdiction over congressional budget enforcement. Congress will then make its own fiscal policy recommendations outlined in the budget resolution (Center for Budget and Policy Priorities, 2017).

The budget resolution provides a framework that sets levels of spending in 19 broad spending categories, or budget "functions," as well as the amount of revenue the government will collect (Center for Budget and Policy Priorities, 2017; Dharmapala, 2006). The budget resolution is a concurrent resolution of the House

and the Senate; it is *not* a regular bill that is signed into law by the President (Saturno et al., 2012). The budget resolution is voted on in each chamber with a majority vote (which means it cannot be filibustered in the Senate). The House and Senate will resolve differences between their respective budget resolutions through a conference committee and enforce budget levels throughout the year (Heniff, 2015, 2016). Part of the budget process includes how the budget can be used to control the deficit, through enforcement mechanisms such as reconciliation, pay-as-you-go procedures[1], and limits, or spending caps, on discretionary funding[2] (Center for Budget and Policy Priorities, 2017). Congress's official score-keeper, the Congressional Budget Office (CBO), provides non-partisan analysis and official scores, or estimates of program costs, that allow Congress to enforce the budget.

Thus, the budget resolution is Congress's way of outlining a budget and enforcing limits on spending, it does not make changes to spending or tax law. In order to make changes to law, Congress can use a special expedited process, referred to as the budget reconciliation process, described in brief next (Heniff, 2016; Reynolds, 2017b).

**Budget Reconciliation Process**

Reconciliation refers to an optional process outlined in Section 310 of the Congressional Budget Act which is under the purview of the House and Senate Budget Committees. It is not intended to be a policy process per se, but a budget process to align programmatic spending and revenues with targets as specified in the budget resolution (Saturno et al., 2012) in order to reduce the deficit. That is, for reasons described below, reconciliation refers to a process that provides for "expedited" consideration to a bill that receives special treatment and rules compared to typical legislation.

In order to get deficit, spending, and revenues in synch with assumed targets, lawmakers must reduce spending and/or increase taxes, two politically unpopular and difficult activities. To facilitate spending reductions and/or tax increases, reconciliation provides expedited procedures that are of significant value in the deliberative U.S. Senate. We primarily focus on the procedural aspects of the Senate in budget reconciliation because of these implications (Joyce, 1996). Bills brought before the Senate through the budget reconciliation process only require 51 votes to pass a bill while in general, bills that come before the Senate typically require 60 votes to advance (Reynolds, 2017b). Importantly, this process also implies that the majority political party in power can have significant influence over writing and passage of a reconciliation bill even when they do not have a 60-plus person majority in the Senate (Reynolds, 2017b).

The budget reconciliation process instructs authorizing committees, such as the Health, Education, Labor, and Pensions (HELP) Committee in the Senate, to produce legislation that will produce these changes in either (mandatory) spending or revenue to bring the budget aligned with targets. Reconciliation instructions refers to the charge the budget resolution makes to these committees (Heniff, 2016). For example, a budget resolution may instruct the Senate HELP committee to reduce the deficit by $1 billion. Senators on the HELP committee would then be charged with coming up with a bill that would result in changes to spending in the areas under HELP jurisdiction equal to a reduction of at least $1 billion in the deficit. The resulting bill would then come before the Senate under the expedited reconciliation process, which would only require 51 rather than 60 votes to proceed.

While reconciliation allows bills to be passed without a 60+ vote in the Senate, there are some intentional trade-offs to this expedited process. Reconciliation rules places limits on the type of policies, amendments,

[1] The Statutory Pay-As-You-Go of 2010 (PAYGO) outlined a process by which legislation that increases the deficit due to taxes or mandatory spending must be offset by changes that reduce the deficit in an equivalent amount (CBPP, 2017).
[2] Violations of PAYGO and discretionary spending caps can trigger sequestration, or across-the-board-cuts to mandatory or discretionary spending (CBPP, 2017).

and bills that can be considered, meaning measures passed through reconciliation have to meet certain guidelines. Reconciliation also limits debate and what types of amendments can be offered while the Senate (generally) operates with open debate and discussion.

Reconciliation legislation in the Senate must abide by the Byrd Rule; The Byrd Rule strictly limits what provisions can be considered under the expedited reconciliation process. These limitations are meant to ensure that reconciliation legislation achieves budgetary goals, particularly deficit reduction, rather than expedited policy changes (131 Cong. Rec., 1985).

The Byrd Rule outlines six tests for how a bill considered under the reconciliation process must be in compliance; if the bill or portion of the bill fails a particular Byrd Rule test, then that bill or portion of the bill cannot be considered under a 51-vote process in the Senate. One example test is that provisions in the reconciliation bill cannot be outside the jurisdiction of the committee tasked with producing reconciliation. For example, the Senate HELP committee likely could not produce a bill that makes changes to environmental law or defense spending, policy areas that are outside of the committee's jurisdiction. Reconciliation bills also cannot produce changes in spending or revenues that are "merely incidental" to the budget implications (Heniff, 2016).

These examples demonstrate the challenges and opportunities of the reconciliation process. On the one hand, bills receive a privileged process in the Senate; on the other hand, they must adhere to strict rules and be "budgetary" in nature. While the budget resolution cannot be signed into law and merely outlines spending and revenue, the bill that comes out of the reconciliation process can be signed into law by the President once it is passed and agreed upon in both chambers.

**The Federal Budget Process: Mandatory v. Discretionary Spending**

Besides the budget resolution and reconciliation process itself, additional context on the structure of federal spending is helpful to this discussion. Generally, there are two types of federal spending: discretionary spending, which is subject to annual review by the Congressional Appropriations Committee typically through 12 appropriations bills; and mandatory entitlement spending, which are programs (e.g. Social Security, Medicare) established and funded by authorizing statute (Center for Budget and Policy Priorities, 2017).

Eligibility for mandatory programs is outlined by law: if someone meets the eligibility criteria, the individual is entitled to receive federal benefits. Mandatory programs are not subject to annual Congressional review through the Appropriations process and are not subject to the spending limits of the Appropriations Committee. Unlike discretionary spending programs, mandatory spending programs are on "auto-pilot" (Center for Budget and Policy Priorities, 2017). When more individuals are eligible for mandatory entitlement programs, spending adjusts automatically (i.e., Congressional action is not required).[3] Mandatory programs are also subject to reconciliation instructions. That is, reconciliation bills can only produce changes in spending for mandatory programs.

By contrast, discretionary programs are funded by Congressional action through the annual appropriations process and are not subject to reconciliation. That is, discretionary programs cannot be changed through the reconciliation process. While legislation outlines the characteristics of discretionary programs, the actual spending levels are determined annually by Congress. For example, federal work-study is a discretionary program. Each year, Congress passes some sort of spending bill that sets the spending

[3] Most spending is mandatory spending: $2.5 trillion. Almost half of mandatory spending is for major health care programs. (CBO, 2017)

amount for this program. The budget resolution does set the overall level of discretionary spending that appropriators cannot exceed, unless exceptions are made such as for national emergencies (Oleszek, Oleszek, Rybicki, & Heniff, 2015).

The federal government typically spends $1.2 trillion[4] in discretionary spending, about half of which is on defense, and half on nondefense discretionary, which includes a host of programs including K–12 and higher education spending (Congressional Budget Office, 2018a). Generally, appropriations bills are expected to adhere to the limits (or caps) set forth in the budget resolution and are enforceable in the Senate through points of order (Center for Budget and Policy Priorities, 2017).[5]

We return to the distinction between mandatory and discretionary spending in the federal budget later when we discuss how student aid spending is treated.

### Budget Resolution and Spending on Federal Financial Aid

Why is the budget process of interest to higher education scholars and financial aid practitioners? First, whether a federal program is discretionary or mandatory influences how it is funded over time. Since federal financial aid is a combination of discretionary and mandatory programs, the ways in which policy can change spending are complicated beyond just the typical policy research concerns of eligibility and effects.

Funding for a discretionary program requires annual action by the appropriations committee and is subject to limits or spending caps. Funding for mandatory programs is automatic, but changes in eligibility and program structure typically require legislative changes, a process that can be politically difficult. According to Reynolds (2017b), the growth of mandatory programs in the 20th century in part motivated organizing the congressional budget process. Mandatory programs are complicated to budget because their funding is not subject to annual review, their benefits are indexed to inflation, and means-tested mandatory programs will be larger during economic hard times, increasing their cost (Oleszek et al., 2015; Reynolds, 2017b). Second, the budget reconciliation process provides an expedited budget (and oftentimes political) procedure for some policy changes, albeit under limited conditions, to occur. This suggests that political and procedural considerations can influence how student aid is reformed beyond just policy matters. We next review how the funding structure of Title IV aid and the procedural benefits of the budget reconciliation have produced significant developments in financial aid policy.

## How is Student Aid Financed at the Federal Level?

Title IV of the Higher Education Act outlines the structure of the federal student aid program. The Higher Education Act of 1965 outlined various federal programs related to higher education funding as part of President Lyndon B. Johnson's Great Society program, which recognized the need for federal investment in postsecondary education (Fuller, 2014). While HEA somewhat predated federal budget reform of the 1970s, the growth of social safety net programs and government spending broadly necessitated organization of the federal budget process (Reynolds, 2017b). Understanding congressional budgeting aids in contextualizing the growth of grant and loan-based student aid.

The nature of Title IV programs is familiar to financial aid administrators, practitioners, and scholars, but some background is provided here (Congressional Research Service, 2016; Deming & Dynarski, 2009; Dynarski & Scott-Clayton, 2013; Fuller, 2014): Students' financial need is determined from the FAFSA (Free

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[4] The $1.1 trillion in discretionary spending excludes spending related to natural disaster and overseas contingency operations.
[5] Prior to 2011, the Budget Resolution set forth the spending limits for the Appropriations Committee. However, the 2011 Budget Control Act set forth ten-year discretionary spending limits, and the Appropriations Committee must adhere to those limits set by law (as amended by the Bipartisan Budget Acts of 2013 and 2015 and most recently 2018).

Application for Federal Student Aid), and students receive a variety of federal aid including: grants (e.g. Pell), which do not have to be paid back; loans (e.g., subsidized or unsubsidized Direct Loans and PLUS loans) which are paid back by the borrower with interest; or work aid (e.g., Federal Work-Study) which provide financial assistance in exchange for work in on or off-campus employment. There is a multitude of research on these various programs and their effectiveness, structure, and benefits (Deming & Dynarski, 2009; Hillman, 2015).

Here, rather than discuss the effectiveness of programs, we review how these programs fit into the context of Title IV of HEA and the mechanisms by which these programs are funded at the federal level. This presentation aims to show how federal budget process can be a form of policy-making in the federal student aid program (Table 1).

Table 1

*How Federal Financial Aid Dollars are Classified in the Federal Budget*

| | **Mandatory Spending ("auto-pilot"; potential to be subject to a budget reconciliation process)** | **Discretionary Spending (subject to annual Congressional review and discretionary spending caps)** |
|---|---|---|
| Supplemental Opportunity Grants | | X |
| Federal Work Study | | X |
| Student Loans | X | |
| Pell Grants | X | X |

We specifically focus on Pell Grants and student loans because their funding structure has been affected by the federal budget process, specifically through reconciliation. Other campus-based aid programs, such as Federal Work-Study, are discretionary programs, and not typically subject to budget reconciliation. Both programs are also targets for changes due to their specific budgetary challenges.

**How are Pell Grants Funded?**

The Pell Grant program originated through the Educational Opportunity Grant Program in HEA, and subsequent reauthorizations of HEA formed the Pell Grant as it is known today (Dynarski & Scott-Clayton, 2013). The purpose of the grant was to provide grants directly to low and middle-income students, which unlike loans, did not need to be paid back to the federal government (Fuller, 2014). While advocates propose increases to the Pell award or to bring the Pell award in line with college prices, one important detail to lawmakers is how Pell will impact the budget.

From a federal budget perspective, Pell Grants are unique and complicated. They are unique because of how programmatic eligibility rules outlined by law interact with the discretionary Appropriations Committee. Budget scorekeepers often call Pell grants “quasi-mandatory” because the student eligibility benefits are like a mandatory entitlement program, but the program is constrained by budget enforcement, specifically, the discretionary spending limits of the Appropriations Committee (Congressional Budget Office, 2013). Further, Pell grants are complicated because they have two separate and distinct funding streams that interact to provide the maximum Pell grant (Table 2). In the following paragraphs, we will go into further detail on the “unique” and “complicated” budgetary aspects of Pell grants.

Table 2

*Funding of Pell Grants, 2017*

| | Appropriations Committee, Pell (discretionary) | Higher Education Act, Pell "add-on" (mandatory) | **TOTAL** |
|---|---|---|---|
| Maximum award to the student | $4,860 | $1,060 | **$5,920** |
| Annual cost ($B, 2017) | $22.5 | $6.1 | **$28.6** |

Pell Grants are considered entitlement grants, which are given to all students who meet eligibility requirements, but they are primarily funded through the annual discretionary Appropriations process. Congress has a rule that the Appropriations Committee must not shortchange Pell. In the fiscal year 2006 budget resolution (H. Con. Res. 95), Congress enacted a rule that CBO scores, or estimates the cost of, the Pell Grant program based on its estimated cost for the year (Congressional Research Service, 2016); the amount actually appropriated may be higher or lower than these program costs depending on economic conditions.

Some years, such as during a recession when enrollments spike, the cost of the Pell grant program exceeds what the Appropriations Committee has budgeted for. Other years, the annual appropriation may be more than the actual program costs (Congressional Research Service, 2016). This budgeting challenge was particularly acute after the 2007 Higher Education Re-authorization: Pell costs increased from $14 billion in 2008 to $23 billion in 2011 (+64%) over four years (Congressional Budget Office, 2018b), straining the budgetary limits of the Appropriations Committee.

To address budgetary cost concerns—not student eligibility concerns—Congress has enacted piecemeal changes to Pell student eligibility outside of the Higher Education Act. The reduction of Pell costs through these changes have occurred given the discretionary spending limits of the Appropriations Committee and to ensure compliance with the Pell scoring rule. These funds are often referred to as “Pell shortfall/surplus” funds. Surpluses in the Pell Grant program—when appropriations are more than what the program actually costs—are available to support subsequent year’s Pell costs. Shortfalls in the Pell program—when appropriations are less than the actual program costs—are scored against the next year’s appropriation, or in other words, taken into account in next year’s budget (Congressional Research Service, 2016; Hiestand, 2016). That Pell is scored in a way to meet program needs supports why it is referred to as “quasi-mandatory.”

While Pell program costs can increase, they can also decline due to the unique “quasi-mandatory” funding structure of the program. In recent years, discretionary Pell program costs have stabilized to about $22.5 billion, and recent surplus amounts are over $7 billion (Congressional Budget Office, 2018b). However, the Appropriations Committee faces demands for spending increases both related and unrelated to education programs,[6] and the Committee is limited by strict spending limits of the Budget Control Act[7]. Therefore, in recent years, some legislators have proposed to use approximately $1.3 billion in Pell

[6] Examples include Title I, Education for the Disadvantage and veterans’ health care.
[7] The Budget Control Act of 2011 imposed caps on discretionary appropriations through 2021 (CBPP, 2017). When appropriations exceed caps, sequestration, or across-the-board cuts, is triggered.

shortfall/surplus funds have for other programs unrelated to student financial aid (Hiestand, 2016), and President Donald Trump's fiscal year 2018 budget proposed rescinding $3.9 billion from these surplus funds. These facets of the Pell program further underscore how the budget and appropriations process are important drivers for the structure and funding of federal financial aid beyond authorizing legislation.

In addition to being a unique, "quasi-mandatory" program, Pell grant funding is complicated because it is funded through two different funding sources. Since the establishment of Pell in 1965 through 2007, Pell was funded through discretionary appropriations (Congressional Research Service, 2016). But that changed with the addition of a "mandatory Pell add-on" in the 2007 College Cost Reduction Act to supplement the discretionary Pell base award. After many years of no increases to Pell grants, Congress used the reconciliation process in 2007 to increase Pell grant funding by cutting subsidies to student loan lenders, a history we briefly review later in this article.

The base maximum grant award in 2017 was $4,860, funded by the discretionary Appropriations Committee, and a $1,060 mandatory "add-on," funded by the authorizing statute, for a total maximum Pell award of $5,920 in 2017. In 2010, legislation described later in this article set this mandatory add-on to change with inflation each year, a provision that expires in 2018. Recently, the 2018 appropriations act (P.L. 115-141) raised the discretionary base to $5,035; with the $1,060 mandatory add-on, the total maximum Pell amount for 2018-2019 will be $6,095. This combination of mandatory and discretionary spending, plus Pell shortfall/surplus funding, complicates the federal funding of the Pell Grant.

**How are Student Loans Funded?**

Initially established in the 1954 National Defense Education Act, federal student loans provide aid to students in the form of loans (not grants) which must be repaid with interest. The Direct Loan Program encompasses four loans programs offered to students: subsidized Stafford loans, unsubsidized Stafford loans, graduate PLUS loans (for graduate students who have reached limits on other loans), and parent PLUS loans for parents of dependent students (Congressional Budget Office, 2014). Subsidized loans are only available to undergraduates and the interest on the loans while the student is in school is paid for by the government (Stoll, Smole, & Mercer). For the 2017-18 school year, interest rates on undergraduate direct loans are 4.45%, on graduate or professional loans are 6% and PLUS loans 7%.

Student loans also come with a variety of income-driven repayment (IDR) options. While the standard repayment plan typically requires a borrower to pay off the loan in 10 years after entering payment, IDR plans set an affordable monthly payment at a longer term (e.g., 20 or 25 years) and provide forgiveness at the end of the term (Hillman & Orosz, 2017). Public Service Loan Forgiveness (PSLF), enacted in 2007—through a reconciliation bill—also provides forgiveness after 10 years for borrowers who enter public service careers. There are a number of public policy concerns around student loan repayment including simplifying repayment options, improving servicing to better inform borrowers of repayment options, and proper implementation of PSLF (2017 is the first year that forgiveness would be available). We subsequently describe how these facets of the student loan program are budgeted and later review how many of these changes came about through the reconciliation process.

Whereas Pell is currently a combination of discretionary and mandatory funding, the federal student loan program is a mandatory program, established in authorizing statute (the Higher Education Act). Loans are not subject to spending limits through the annual appropriations process.[8] Spending—or lending—adjusts with student eligibility and demand; the Department of Education has permanent authority to lend. As of

[8] The limits on student loans are set by law by a per-borrower limits, and not by the annual appropriations process (CBO, 2014).

2017, the entire student loan portfolio is $1.4 trillion, with over $100 billion lent annually. Over 42 million Americans hold student loans (Federal Student Aid, 2017).

Concerns about student debt and the large dollar figures associated with it make student loans an attractive program for lawmakers to reform. But changing loan provisions in the Higher Education Act is challenging given the "scoring" rules of federal loan and credit programs and the resulting estimates of the deficit.

The Federal Credit Reform Act of 1990 (FCRA) instructs budget scorekeepers—specifically the Congressional Budget Office (CBO)—to use "cost to the government" discount rates from Treasury auctions to estimate the present (or current) value of the loan portfolio and expected future cash flows (Congressional Budget Office, 2014). Some argue that the FCRA "cost to the government" methodology is flawed because it does not account for private market risk and under-estimates the deficit impact (Chingos, 2015). Under current FCRA law, the CBO currently estimates the federal student loan program will reduce the deficit by over $30 billion (TICAS, 2016) over ten years (2018-2027). Although these estimates change annually and would be different under an alternative scoring method (i.e., "fair value"), many policy analysts refer to this estimate as "profit" in the student loan program.

Thus, under current law scoring rules, most student loan changes that would arguably benefit borrowers will increase the deficit. Provisions to reduce student benefits—such as increasing student loan fees or interest rates, eliminating the in-school interest subsidy, reducing eligibility for income driven repayment plans or public service loan forgiveness—will save the government money by shifting the costs to borrowers.

These features underscore how budgetary issues and deficit impacts are at play when reforming student loan programs. How changes to student loan programs impact the deficit are an important consideration in using the reconciliation process to reform the student loan program in addition to their effects on borrowers. The next section explores this in more detail and demonstrates how student aid, particularly federal student loans and Pell, have been altered through the budget resolution and reconciliation process.

## Higher Education Changes through the Federal Budget Reconciliation Process

One reason higher education practitioners and researchers should be abreast of an "inside-the-beltway" process is the amount of reforms to student aid that have occurred through the federal budget and reconciliation process. There have been several large changes to higher education through reconciliation rather than HEA reauthorization (Madzelan, 2015). These included establishing direct loan program, changing or eliminating certain loan programs, and changes to the amount and structure of the Pell grant. We identify six pieces of legislation from the past 25 years that have resulted from a budget reconciliation process and have produced reforms to federal student aid and higher education policy (Table 3).

### Omnibus Budget Reconciliation Act of 1993 (OMBRA, PL 103-66)

The OMBRA reduced the deficit by $496 billion over five years (Lynch, 2010). The student loan program detailed above describes the current Federal Direct Loan Program. There was a time however when the Federal Family Education Loan (FFEL) program existed alongside this program (Austin, 2010). The FFEL program allowed private lenders to provide guaranteed student loans and gave government subsidies and insurance to these lenders. Policymakers began to view the administration of guaranteed loans to be inefficient and more costly than a direct loan program, which would provide loans directly from the government rather than ones from private banks that were federally guaranteed (New America, n.d.).

In 1992, the Direct Loan pilot program was established under President George Bush and Education Secretary Lamar Alexander. The direct loan pilot program was expanded under President Bill Clinton in the 1993 Omnibus Budget Reconciliation Act. There were also changes to the Federal Family Education Loan (FFEL) program to offset these student loan benefits.

**Balanced Budget Act of 1997 (PL 103-34)**

There were two major reconciliation bills under President Bill Clinton in 1997 (Lynch, 2010). The Balanced Budget Act of 1997 reduced the deficit by $118 billion over five years. Similar types of changes happened again in 1997, with small tweaks made to rules governing student lenders to offset reductions of fees for student loan borrowers.

**Taxpayer Relief Act of 1997 (PL-105-34)**

The subsequent reconciliation bill in 1997 largely concerned revenue/tax policy. Reconciliation in this case was used to enact tax related provisions in higher education, rather than changes in student loans or grant aid. The Hope and Lifetime learning tax credit and the student loan interest deduction were established.

**Deficit Reduction Act of 2005 (PL 109-171)**

The 2005 Deficit Reduction Act, signed into law by President George W. Bush, reduced the deficit by $39 billion over five years (Lynch, 2010). The Deficit Reduction Act reduced lender fees and increased interest rates on PLUS loans and used those additional funds to pay for student borrower benefits as well as to establish two new programs called Academic Competitiveness Grants (ACG) and SMART grants. ACG grants are almost like a supplemental Pell grant awarded to first- and second-year Pell students that maintained a 3.0 and at least half-time status. SMART grants were for students enrolled in science, technology engineering and math fields and critical foreign languages their junior and senior years (Fuller, 2014). These programs no longer exist because funding for these programs has expired.

**College Cost Reduction Act (2007, PL 110-84)**

The College Cost Reduction Act (CCRA) reduced the deficit by $752 million over six years (Lynch, 2010). In 2007, President Bush's budget proposed an increase to Pell grants and cuts to FFEL lender subsidies. Congress agreed and enacted about $50 billion worth of cuts to lenders and created a mandatory Pell add-on to supplement the base discretionary Pell award and raise the maximum award level. As mentioned earlier, Pell grants became even more complicated from a budget perspective: there were amounts provided by the Appropriations Committee (discretionary base award) and additional amounts provided by the authorizing committees (mandatory add-on).

Congress also made changes to student loans. Student loan interest rates were temporarily reduced, and the law created new programs to make student debt more affordable (Stoll et al., 2007). The new income-based repayment (IBR) program capped loan payments at 15% of a borrower's discretionary income and remaining balances would be forgiven after 25 years. In addition, the law created Public Service Loan Forgiveness, which would forgive student loans after 120 qualified payments (typically 10 years) of qualified public service employment.

In addition to these changes in student loan lender subsidies and repayment and forgiveness programs, CCRA also affected a variety of higher education grant programs (Stoll et al., 2007). The mandatory TEACH (Teacher Education Assistance for College and Higher Education) Grants and College Access

Challenge Grant programs were established, and funding for Upward Bound programs and MSI (Minority Serving Institutions) was also included (Stoll et al., 2007).

**Student Aid and Fiscal Responsibility Act of 2010 (SAFRA, PL 111-152)**

The 2010 Health Care and Education Reconciliation Act also resulted in major changes to federal student aid. There was some political recognition that changes in student loans and Pell Grant programs could only be achieved if included in the reconciliation bill that was part of President Barack Obama's broader health care reform, or the Affordable Care Act (Shireman, 2017). When taken together with ACA, HCRA was estimated to reduce the deficit by $109 billion over five years (Lynch, 2010). The education title of HCRA is commonly known as SAFRA (Student Aid and Fiscal Responsibility Act). This reform process started in 2009 as part of President Obama's first budget but was not completed until nearly a year later (Shireman, 2017).

The resulting reconciliation legislation eliminated the bank-based FFEL student loan system described above and transitioned to an entirely direct loan system. The "savings" from this action were primarily used for Pell grants. The mandatory Pell "add-on" was changed from a fixed amount to one that changes with inflation. The mandatory adjustments are set to end with the 2017-18 school year, meaning barring further Congressional action, the add-on for 2018 and beyond will be at the same 2017-18 levels. The Appropriations Committees were also having challenges with Pell funding on their side of the ledger—due to expanded Pell eligibility—so SAFRA provided about $13.5 billion for Pell "shortfall/surplus" funds. (Congressional Research Service, 2016). Some of the issues about Pell's unique/complicated nature described above stem from the 2010 SAFRA bill.

There were also changes to IDR—it was made more generous with 10% of discretionary income and forgiveness after 20 years. In addition, to appease concerns from state student lending agencies, there was a provision for servicing of student loans by non-profit student lenders.

Table 3

*Summary of Reconciliation Bills and Changes to Federal Financial Aid, 1993–2010*

| Reconciliation Act | Summary of Changes |
|---|---|
| Omnibus Budget Reconciliation Act of 1993 (OMBRA, PL 103-66) | • Created Direct loan program<br>• Changed FFEL program |
| Balanced Budget Act of 1997 (PL 103-34) | • Changed student lenders and fees |
| Taxpayer Relief Act of 1997 (PL-105-34) | • Enacted higher education tax provisions, including Hope and Lifetime Learning tax creditand student loan interest deduction |
| Deficit Reduction Act of 2005 (PL 109-171) | • Reduced lender fees<br>• Increased interest rates on PLUS loans<br>• Established Academic Competitiveness grants and SMART grants |

| | |
|---|---|
| College Cost Reduction Act (2007, PL 110-84) | • Cut FFEL lender subsidies<br>• Created mandatory add-on to discretionary base of Pell award<br>• Reduced student loan interest rate<br>• Established new student loan income-based repayment (IBR) programs<br>• Established Public Service Loan Forgiveness (PSLF)<br>• Included funding for TEACH grants, College Access Challenge Grants, and Upward Bound and MSI programs |
| Student Aid and Fiscal Responsibility Act of 2010 (SAFRA, PL 111-152) | • Eliminated FFEL student loan program<br>• Transitioned to complete direct lending of student loans<br>• Changed mandatory add-on of Pell to adjust with inflation<br>• Provided additional funding to Pell shortfall/surplus funds<br>• Changed IBR by adding more generous programs |

## Implications for Practice

In this section, we explore future policy proposals that may be considered in Congress and the feasibility that they could be accomplished through the federal budget process. For the purposes of this discussion, we focus more on the procedural possibility, rather than the political likelihood, which is influenced by factors such as party control, legislative calendars, competing agendas, and policy windows (Kingdon, 2010). This discussion intends to illustrate to the higher education community the possible scope of implications that the federal budget processes can have for student aid and higher education policy-making.

### Budget Process

One challenge we acknowledge is that the budget and appropriations process that was described above mainly refers to "regular order." In practice, however, Congress has rarely met the procedures outlined, such as approving a budget resolution by April 15 or completing appropriations bills before the federal fiscal year begins on October 1. Since 2001, Congress has not adopted a budget resolution nine times (Reynolds, 2017a). Congress has also not regularly passed the 12 appropriations bills for discretionary spending in recent years, instead relying on omnibus spending packages or continuing resolutions to prevent a government shutdown. Thus, budget process in general presents a procedural and political challenge for Congress, particularly the Senate (Reynolds, 2017a).

Despite this observation, budget process still provides an outline for implications for financial aid practice. For example, discretionary spending limits and sequestration, or across-the-board spending cuts, associated with the Budget Control Act of 2011 were enacted to enforce its budgetary goals (Heniff, 2015). The threat of sequester suggests that increases to various discretionary student aid programs, including the Supplementary Education Opportunity Grant (SEOG) or Federal Work-Study, are difficult to obtain in the presence of spending limits.

Finally, there are other budget and appropriations measures that have influenced higher education. While we mostly focused on how reconciliation can make legislative changes, appropriations bills can also affect student aid. When the appropriations committees write and pass appropriations bills, they can contain rider language that achieve various policy goals even though the intent of such bills is to appropriate the dollars that will be spent on discretionary programs. For example, a 2011 appropriations bill (PL 112-10) contained a provision that eliminated the so-called "year-round" Pell which allows students to use Pell grants in summer months (Delisle & Miller, 2015); year-round Pell eligibility was restored in May 2017 through an appropriations package (PL 115-31) that funded the government for the duration of the 2017 fiscal year. The Bipartisan Budget Act of 2013 (P.L.113-67), a compromise budget bill brokered by Senator Patty Murray and Representative Paul Ryan, outlined a two-year budget for discretionary spending and sequestration relief; the bill had minor higher education provisions to produce savings, including reducing guaranty agency fees and eliminating non-profit student lending servicing contracts. These examples illustrate how budget deals and appropriations bills—in addition to reconciliation legislation—can affect student aid beyond reauthorizing the underlying statute (i.e., HEA).

### Pell Grants

As described above, the Pell Grant surplus/shortfall funds can pose challenges to Congress. The appearance of surplus funds in times of stable program participation are enticing for lawmakers to allocate funding to other priorities, particularly if budget caps are tight in other discretionary spending areas, such as research funding. However, this "raiding of the Pell funds" concerns those who believe money appropriated for Pell should be used for Pell (Hiestand, 2016). While the surplus/shortfall funds were intended to stabilize Pell funding and alleviate the funding pressures of the Appropriations Committee given Pell's unique quasi-mandatory funding formula, this funding structure is politically challenging from a budget perspective because it has prevented additional discretionary funding for Pell.

The mandatory funding of Pell Grants is also challenging. Without further Congressional action, the mandatory inflationary adjustment is set to expire in 2017–18, with the mandatory add-on set to its 2017-18 level regardless of changes in prices. Various advocacy reports and Congressional bills propose making this inflation adjustment permanent or making the Pell Grant program fully mandatory. These proposals could be considered in a reauthorization of HEA, but it is also conceivable that budget reconciliation could provide a vehicle for these sorts of changes as it has in the past.

### Student Loans

As described above, the CBO scores student loans according to specific assumptions outlined by law. Thus, reconciliation directives that instruct committees to meet certain targets in the deficit will be affected by the changes in costs of the student loan program. Many legislators and advocacy groups have proposed (or opposed) a variety of changes to the student loan program such as lowering interest rates, allowing student loan interest rates to be refinanced, or changing the structure of income-driven repayment or loan forgiveness. These programs have varying costs to the government (Government Accountability Office, 2016), which can factor into the political considerations of the Congressional Budget committees. While these issues could be considered in the next reauthorization of HEA (Perna, Kvaal, & Ruiz, 2017), budget process can also play a role, which allows lawmakers to make changes to mandatory spending programs.

## Conclusion

Many practitioners in the student aid community desire to make evidence-based changes to federal policy (Heller, 2017). Policy-relevant research in the student aid community typically evaluates the effectiveness of student aid in producing access and completion outcomes. However, the ways in which changes to student

aid affect the deficit and budget are at play in addition to their intended or predicted effects on students' behaviors and outcomes.

Becoming a more effective advocate for policy change demands some literacy in Congressional process and politics in addition to a reading of the empirical research on student aid. One purpose of this article is to provide some overview of this information so that practitioners and policy scholars are better equipped to follow developments in Congress and perhaps advocate to their elected representatives regarding budget and funding of student aid, above and beyond debates regarding provisions of HEA reauthorization. For example, if a proposed change to student aid is coming under consideration via a reconciliation bill, the threshold for passage in the Senate is lower than a regular bill and the majority party can greatly influence the process—this facet can affect how practitioners and advocates follow developments and vote counts.

While Congressional procedure can seem arcane and disconnected from the everyday practice of financial aid and the needs of students, the federal budget process's role in changing student aid has ultimately affected the type and amount of aid students have received over time. The federal budget process has been a unique tool for Congress to make significant changes to policy even during seemingly politicized or gridlocked times (Reynolds, 2017b), and this article endeavored to show how student aid is a prime example of this tool at work.

This article attempted to outline the federal budget process because of its role in pulling the "purse strings" of the federal government but also because of its contemporary influence on student aid policy. Issues such as how Pell Grants are funded and structured and how student loans are scored contribute to how policy change in student aid has developed.

**Nexus**

- Many higher education scholars and practitioners are rightly concerned about the reauthorizing of the Higher Education Act (HEA), the main vehicle for student aid reform (Madzelan, 2015). However, understanding the full range of budget and appropriations policy provides a fuller picture of how Congress can change student aid.
- Congressional process has implications for the funding and administration of financial aid. These procedural tools available to policy-makers, such as budget reconciliation, can be of interest to administrators and advocates as they follow changes in student aid in DC.
- The politics of budget process have resulted in significant reforms for financial aid policy that in turn affect student aid practice. Issues such as increases to Pell grant awards, elimination of entire loans programs, and changes to how student loans are repaid and forgiven exist at the intersection of financial aid practice and federal budget process.

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