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## The Complex Case of Pell Grant Budgeting

by Republican Budget Committee Staff

The Pell Grant program is the largest single source of grant aid to postsecondary students, with federal spending on the program totaling \$30.6 billion in fiscal year 2018. This need-based program also has one of the most complex funding structures in the federal budget, involving a mix of discretionary funding and two separate mandatory spending streams.

This complicated funding profile evolved from congressional efforts to ensure adequate funding for the program, which for award year 2018-2019 provided grants – with a maximum award of \$6,095 and a projected average award of \$4,100 – to 7.5 million students.

These grant awards, which vary based on a formula composed of expected family contribution, cost of attendance, and other specific factors, can be used by part- and full-time students to attend more than 5,000 postsecondary institutions nationwide.

While there is no specific income threshold to determine eligibility, in award year 2016-2017, 80 percent of Pell Grant recipients were from families whose annual income was less than \$40,000.

### 2018 Pell Grant Program Funding

**Discretionary Maximum Award: \$5,035**  
Annual Appropriation.....\$22.5 billion  
Mandatory-for-Discretionary.....\$1.3 billion  
\*Surplus Drawdown.....\$0.6 billion

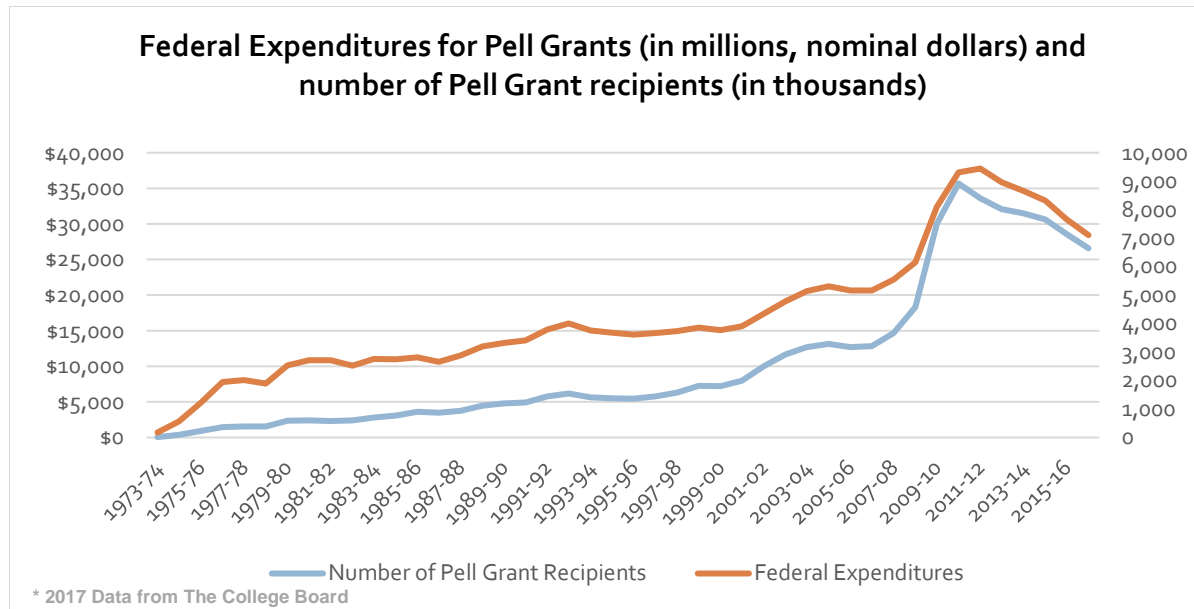
**Add-On to Maximum Award: \$1,060**  
Indefinite Mandatory Funding....\$6.1 billion

**Total Maximum Award: \$6,095**  
Estimated Program Costs.....**\$30.6 billion**  
Source: Congressional Budget Office

\*Currently, CBO estimates the Pell Grant surplus to be \$7.4 billion.

### SPENDING EVOLUTION

For most of its history, the Pell Grant program was funded entirely through annual discretionary appropriations. In response to concerns about repeated underfunding for the program, Congress through the [fiscal year 2006 budget resolution](#) created a rule mandating that congressional scorekeepers charge the annual appropriations bill with the estimated cost of fully executing the maximum award for the upcoming academic year. This rule was intended to remove any incentive to underfund Pell and shift funds to other programs.



Since the rule was implemented, however, the program’s funding structure has become increasingly complex. The last comprehensive reauthorization of the program was in the [Higher Education Opportunity Act \(HEOA\) of 2008](#), although policies affecting the Pell Grant program have been enacted through multiple authorizing and appropriations laws since that time. Today the Pell Grant is funded through a combination of annual discretionary spending, a permanent mandatory funding stream to reduce the amount of discretionary funding necessary to maintain or increase the program’s obligations, and a “mandatory add-on” that further increases program spending.

**Discretionary.** Discretionary appropriations make up the largest – and until the 2007 enactment of the [College Cost Reduction and Access Act](#), the only – source of funding for the program. For fiscal year 2018, discretionary appropriations for Pell Grants totaled \$22.5 billion. Under the Higher Education Act (HEA), the annual appropriations law that provides this funding also establishes the maximum *discretionary* award for the upcoming award year.

The size of this award has grown over time, from \$452 in award year 1973-1974 to \$5,035 in award year 2018-2019.

**Mandatory-for-Discretionary.** The “mandatory-for-discretionary” stream is a set-aside in the HEA that works to reduce the amount of discretionary funding needed to maintain or increase the program’s obligations. This cost shift has reduced the amount of non-defense discretionary funding, which is capped under the Budget Control Act, needed to support the program. Under the [fiscal year 2011 spending bill for the Department of Education](#), which made this funding stream permanent, mandatory-for-discretionary appropriations will total \$1.4 billion for each of fiscal years 2019 and 2020 and \$1.1 billion annually thereafter.

**Mandatory Add-On.** The College Cost Reduction and Access Act, which was subsequently modified by [the Health Care and Education Reconciliation Act of 2010](#), amended the HEA to create a mandatory add-on to Pell Grant awards. This add-on provides mandatory funding to increase the size of the maximum Pell award. From 2008 through 2012 the mandatory award amount was set in statute (starting at \$490); from 2013 through 2017 it was established by formula; and it is now set at \$1,060 for award year 2018-2019 and all subsequent years. Today, that \$1,060 award is funded with an indefinite permanent mandatory appropriation. The Congressional Budget Office (CBO) estimates funding for the mandatory add-

on will total \$72.4 billion over the 2018-2028 period.

### RECENT APPROPRIATIONS ACTS AND ENFORCEMENT CONCERNS

The fiscal year 2017 and 2018 discretionary funding bills for the Education Department both increased net mandatory spending on the Pell Grant program, and the Senate has proposed to increase such spending further next year. In the wake of the 2017 increase, the Senate revived a point of order (originally authored by Senator Kent Conrad, D-ND, in the fiscal year 2009 budget resolution) meant to curb out-year spending that escapes congressional budget enforcement.

**2017.** The fiscal year 2017 omnibus appropriations bill revived year-round Pell Grants, which Congress and the Obama Administration had previously eliminated due to cost. While CBO scored the provision as costing nearly \$4 billion over 10 years, the bill included an offset only for the first year of that cost (a \$254 million rescission from the permanent mandatory-for-discretionary stream). This was likely due to scorekeeping conventions that score only one year of costs for cap and allocation purposes.

**2018.** A similar scenario played in the 2018 omnibus appropriations act, which increased the

discretionary maximum award from \$4,860 to \$5,035. Again, only the first-year cost of the provision was paid for (through a \$48 million rescission from the permanent mandatory-for-discretionary stream for fiscal year 2018), and the remaining almost \$500 million in out-year spending was incorporated into the baseline without offsets.

**2019.** The Senate-passed version of the fiscal year 2019 funding bill proposes a similar scheme for next year. It would increase the maximum discretionary Pell award by \$100, from \$5,035 to \$5,135, and to comply with fiscal year 2019 spending levels, would offset the \$39 million cost for 2019 (from the mandatory-for-discretionary stream). The Senate bill would, however, leave the \$350 million in out-year costs unpaid.

In an effort to preserve baseline fiscal discipline, during Senate floor consideration of the fiscal year 2019 spending bill, [Chairman Enzi introduced](#) an amendment (S.A. #3829) to preserve the proposed increase in the maximum discretionary Pell Grant award and ensure that any future mandatory costs associated with award increases are offset. Due to an impasse on the floor, the amendment was not considered, but the proposal remains a viable option as Congress finalizes its 2019 spending bill for the Department of Education.



## Sequestration

Sequestration is an enforcement mechanism that uses a formula to cancel budgetary resources. In its current context, sequestration can refer to spending reductions ordered by the President to comply with the 2010 Pay-As-You-Go (PAYGO) Act and/or the 2011 Budget Control Act (BCA). Under the PAYGO Act, reductions may be ordered to mandatory spending to eliminate a debit on the PAYGO scorecard. Under the BCA, as amended, mandatory spending reductions are in place through 2027, and discretionary spending reductions may be ordered to eliminate a breach in the annual discretionary spending caps imposed by the BCA (through 2021), pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985.

## IN CASE YOU MISSED IT...

- On August 15, [CBO issued a sequestration update report](#).
- On August 16, [CBO released an update on transparency](#), which describes the agency's efforts to ensure its work is understood. The Senate Budget Committee [held a hearing on September 13](#) focused on CBO's recent transparency report.
- On August 31, the White House Office of Management and Budget released [an update of the PAYGO scorecard](#).

## BUDGET BUSTERS

### NASA's Webb Telescope Troubles

Major design defects in the James Webb Space Telescope have delayed its planned 2018 launch until March 2021. Problems with the telescope include faulty screws, solvent, and wiring. The delays are costing the National Aeronautics and Space Administration (NASA) \$1 million a day, according to [NASA Associate Administrator Thomas Zurbuchen](#), raising the price tag for its largest robotic science project by \$1 billion. That is on top of the \$800 million cost from previous development delays. To date, NASA has spent \$7.4 billion on the Webb telescope, with a current estimated total cost to taxpayers of \$9.7 billion, including future operations and data analysis. And in a troubling development, a recent report from NASA's external [Independent Review Board](#) finds the Webb at risk for an unheard of 344 separate equipment failures that could compromise its mission. Now NASA's ground-breaking telescope project, which *Nature* magazine has dubbed "the telescope that ate astronomy" for its cost overruns, is poised to exceed its development budget of \$8 billion set in 2011, just as Congress considers its reauthorization.

