

INFORMED BUDGETEER: PELL'S PROBLEM – A PRIMER

- The Senate-passed version of the 2005 budget resolution, which is now in conference, included a \$3.7 billion allocation of mandatory budget authority (BA) only (with no accompanying outlays) to allow the Committee on Health, Education, Labor, and Pensions to correct a Pell Grant “shortfall” when it reauthorizes the Higher Education Act (HEA, which expires on September 30, 2004). Doesn't this sound like a mistake?
- After all, isn't the Pell Grant program a discretionary program – meaning it is funded annually in an appropriation bill that controls the program level? And why is there a need to provide BA if it won't result in any outlays? The short answers, respectively, are “yes, it is discretionary” and “because the outlays have already happened.” But a longer answer is needed.
- The President's Budget Appendix for 2005 (p. 361) tells us that “Pell Grants are the largest source of federal grant aid for postsecondary education.” In 2004, about 5.3 million (22% of all) undergraduates will receive up to \$4,050 to help pay for college, with the average award at about \$2,450. Rules set out under HEA determine to what extent low-income undergrads are eligible for a Pell grant. The following table summarizes recent grant levels requested by the President's budget and enacted by Congress.

Fiscal Year	Max. Grant Pres. Req.	Max. Grant Enacted	Average Grant
1999	\$3,100	\$3,125	\$1,915
2000	\$3,250	\$3,300	\$2,040
2001	\$3,500	\$3,750	\$2,303
2002	\$3,850	\$4,000	\$2,411
2003	la	\$4,050	\$2,472
2004	la	\$4,050	\$2,446

la To be named later

Source: OMB, CRS

Discretionary or Mandatory?

- The Labor-HHS appropriation bill enacted for 2004 provided a total of \$14.1 billion in BA for the Student Financial Assistance account and stated that the maximum Pell grant would be \$4,050 (it is only the accompanying report language where it is further specified that \$12.1 billion of the \$14.1 billion is for Pell grants).
- For any other discretionary program, Congress assesses how much the program needs to “do its job” and then provides an appropriation. The law dictates the agency spend no more than that amount, even if it turns out that the amount appropriated is insufficient as demands on the program outstrip available funds. (If the agency makes commitments greater than the amount appropriated, then it would be antideficient.) If the agency thinks it will “run out of money” to operate the program, then the Administration can request and Congress can enact a supplemental appropriation.
- Once upon a time, if it appeared over the course of a school year that Pell grant money would run out, Congress either enacted supplemental appropriations or provided the Secretary of Education authority to reduce the maximum award.
- Prior to the HEA reauthorization of 1992, the Secretary of Education had permanent statutory authority to reduce the maximum Pell grant to make sure that all eligible students still received some grant within the available appropriated funds, even if it was lower than what it otherwise would have been. According to CRS, this authority was used in eight years; the last time was the 1990-91 award year. (Although the Secretary's permanent authority was repealed in 1992, the Labor-HHS appropriation bill continued to extend this authority on an annual basis up through FY 2001, but that annual authority was never used to reduce grants.)

- Since 2001, the Congress and the Department of Education (ED) have operated the Pell program as if it were a mandatory entitlement: All students showing up at ED's door who meet the program's criteria for that year have been receiving the full amount of the grant they are eligible for whether sufficient funds were appropriated for that year or not.
- Therefore, the actual exposure of the federal government to the costs of the program has not been limited in advance by the amount set in the annual appropriation bill, but is instead known only after the year is over (by tracking the number of Pell recipients and summing the grants they received).

Growing the Shortfall

- How can ED do it? -- what happens when the total demand for grants in a year exceeds the total level provided by the enacted appropriation bill?
- Congress tries to enact most education appropriations at least nine months in advance of the relevant “academic” or “school” year so that the appropriations don't become available until just when educational institutions enter into contracts for things they need in the upcoming school year.
- For example, the \$12.1 billion appropriated for Pell grants in the 2004 appropriation bill (enacted on January 23, 2004) is intended to support awards for the upcoming school year (July 1, 2004 -- June 30, 2005). The grants have been being awarded over the course of the current school year (July 1, 2003 – June 30, 2004) mostly come from funds appropriated for FY2003, which ended on September 30, 2003.
- However, the appropriation for Pell grants is relatively unique for education programs in that it is available for obligation immediately upon enactment and remains available for a full two years. That is how ED borrows from future-year funds to pay for grants in the current year. When the amount appropriated in the 2003 bill ran out for the current 2003-2004 school year, for example, ED started borrowing from the amounts already appropriated for the upcoming school year in the 2004 bill.
- Currently, Pell grant budget authority is scored exactly according to the level stated in the appropriation bill, like any typical discretionary program. However, because ED can move funds across years, the outlays are scored based on the estimated full cost of the provisions in the bill (the estimated average grant times the estimated number of recipients).
- Since the President must request and Congress must fund this program far in advance of knowing the actual needs (which are based on eligibility and the number of students who decided to attend school), the appropriators must rely on estimates of what ED thinks the program will cost at the time they draft their bill. There is no requirement that the amount of budget authority stated in the appropriation language must be based on the most recent estimate available to Congress at the time of enactment.
- The shortfall problem started in FY 2001, when underfunding (and borrowing from future-year funds) of almost \$1 billion emerged. The Administration's re-estimates (issued in the summer of 2000) indicated that the cost of operating the Pell Grant program had increased significantly because of the unexpected number of eligible students attending school and applying for grants. Congress responded, not by increasing appropriations accordingly, but instead by increasing the maximum award from \$3,500 to \$3,750 while providing \$0.3 billion less in BA than the program was estimated to require at that time (see following table).

Growth of Pell Grant Funding Shortfall (\$ billions, except maximum award is just dollars)				
	<u>Pres. Budget</u>		<u>Actual/Latest</u>	<u>Cumulative</u>
	<u>Request</u>	<u>Enacted ^{1a}</u>	<u>Est. ^{1a}</u>	<u>Surplus(+)/Shortfall(-)</u>
End of FY 2000				0.3
2001				
Max Award	\$3,500	\$3,750	\$3,750	
Full cost of Max Award	8.5	9.1	10.0	
Proposed/Enacted BA	8.4	8.8	8.8	
Shortfall	-0.1	-0.3	-1.2	-0.9
2002				
Max Award	\$3,850	\$4,000	\$4,000	
Full cost of Max Award	9.6	10.2	11.7	
Proposed/Enacted BA	9.8	10.3	10.3	
Surplus(+)/Shortfall(-)	0.2	0.1	-1.4	-2.3
2002 Supplemental	1.3	1.0	1.0	-1.3
2003				
Max Award	\$4,000	\$4,050	\$4,050	
Full cost of Max Award	10.9	11.7	12.7	
Proposed/Enacted BA	10.9	11.4	11.4	
Shortfall	--	-0.3	-1.3	-2.6
2004				
Max Award	\$4,000	\$4,050	\$4,050	
Full cost of Max Award	11.4	12.7	13.1	
Proposed/Enacted BA	12.7	12.0	12.0	
Surplus(+)/Shortfall(-)	1.3	-0.7	-1.1	-3.7

Source: OMB

^{1a} The enacted column reflects OMB's midsession estimates available at time of enactment. The actual/latest estimate column reflects even more recent data that were recorded as actuals or represent latest estimate.

- It turns out even these latest estimates were too low, as the actual shortfall in 2001 was \$1.2 billion. Then the story was repeated the next year. In fact, the conference report on the 2002 Labor-HHS appropriation bill acknowledged the pending shortfall: “[The Conferees] are aware that the Pell Grant program will experience an additional shortfall in academic year 2002-2003 at the \$4,000 maximum award level and strongly recommend that the Administration propose a supplemental budget request to begin to retire this shortfall in fiscal year 2002.”
- So the Administration did request a \$1.3 billion supplemental, but Congress only enacted \$1 billion, still leaving a cumulative shortfall of \$1.3 billion, with the cost and demands on the program continuing to rise. Since then, both the requests and Congressional appropriations have knowingly underfunded the Pell Grant program. To date the compounding of this practice has resulted in a cumulative shortfall of \$3.7 billion.

What Does It Matter?

- Given that the Pell Grant program has been able to operate recently as if it were a mandatory entitlement, is there a way this practice can continue indefinitely?
- Not likely. Unless the Administration is prepared to make a legal argument otherwise, budgeteers would be right to expect that eventually ED will run out of room to borrow from the appropriation available for the upcoming school year to pay for shortfalls in funding the current school year.
- Under true entitlement programs, if you meet eligibility criteria, you can compel the government to write you a check no matter what. But under the Pell Grant program, a student may be eligible for, but is never entitled to, receive a grant.
- Therefore, it will eventually become apparent that Pell is not a mandatory program after all, but instead is discretionary, since obligations are ultimately limited to the amount provided in appropriation acts. ED already has had close calls in the last two years as delays in enacting timely appropriations (not until

January or February of a fiscal year, instead of by October 1) have threatened ED's ability to borrow from the next-year funds to pay for grants going out in January for the second semester.

- When the borrowing room runs out (it could be when the shortfall is at \$5 billion, \$6 billion, more?; no one has said yet), ED will lose the flexibility to make sure that every qualifying student “in line” for a Pell grant receives the full amount he or she is eligible for. At that point, ED will have to shut the door and cut off everyone else in line.

Scoring Rule

- To prevent future shortfalls and to prevent the resulting effect that some eligible students would be turned down for grants (or perhaps receive smaller grants), the 2005 budget resolution reported by the Senate Budget Committee included a congressional scoring rule regarding Pell grants (in the spirit of a statutory rule proposed by the Administration). To complete the fix for this problem, the resolution also provided \$3.7 billion in BA to eliminate the current estimated shortfall.
- The rule attempted to do the following: if an appropriation bill does not provide sufficient BA to fund the full expected cost of the Pell Grant program (given the maximum award level set in the bill and the expected student demand), it nonetheless would be scored for the full amount necessary to cover the estimated cost. The idea is that the Pell program should transparently operate the way all other discretionary programs do – where the amount of discretionary appropriations scored to the bill represents the fixed amount of funds available to the program. The rule attempted to close the “back door” claim on appropriations from future years after the obligations have already been made.
- But objection to the proposed scoring rule was heard. Some parties feared acknowledging the following facts about the Pell Grant program. First, it is by definition a discretionary program. Second, it can't be underfunded forever, with the freed-up money being spent elsewhere. Finally, when the money eventually runs out, there will be no grants. Despite these facts, an amendment was successfully offered on the Senate floor to strike the scoring rule.
- Without such a rule and a catch-up appropriation (and if upcoming academic cycles behave the way the last few have), the shortfall is likely to jeopardize ED's ability to make good on all the Pell grants that eligible students would be hoping to receive. A scoring rule would prevent that unhappy result by ensuring that the appropriation bill would actually provide all the funds Congress intends the program to receive.

EDITOR'S NOTE:

The *Bulletin* congratulates two departing staffers who have been key *Bulletin* contributors. Dan Brandt, who has been a Budget Committee rock for five years, most recently as the committee's economist-*cum*-education analyst (and today's Pell grant expert), is going to the policy shop of the Bush-Cheney campaign. Gayle Osterberg, the Budget Committee's press secretary since January 2003, has traded 11 years of service with Sen. Nickles to be communications director for the HELP Committee. We know she will miss our budget WODI, but we hope that the HELP committee will replace her sweet spot void. On the Budget Committee, Katy Barr and Cara Duckworth will assume duties as education analyst and press secretary, respectively.