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EDUCATION

1978 Spring Preview
Department of Health, Education, and Welfare
Education Programs
Overview

There is a general consensus that States have the primary responsibility for education but that there is a Federal role. There is almost universal disagreement on what that Federal role should be. Recent actions by the Congress emphasize their view that the Federal Government should provide essentially basic support, should provide the services that States either cannot or will not provide and that the Federal role should be expanding. The Administration, on the other hand, believes the Federal role should be to assist States in performing their responsibilities and that the Federal role should be limited. This basic disagreement is expected to result in "most likely" appropriations of \$1.1 billion in budget authority and nearly \$1 billion in outlays above current policy projections in FY 1978. Within the role envisioned by the Administration four broad objectives are sought:

1. To assist States in providing equal educational opportunity. These efforts are targeted by HEW towards those groups or individuals who are educationally disadvantaged due to socio-economic, racial, geographic or physical and mentally handicapping conditions.
2. To provide limited general support to certain educational activities and functions. These areas would include vocational education, impact aid, libraries, and support for State education agencies.
3. To provide support to efforts aimed at improving the quality and relevance of education throughout the nation. This objective is carried out through research, demonstration, dissemination and related activities.
4. To respond to critical national need. This includes programs identified by the Administration or Congress as priorities, such as easing the problems of school desegregation, solving the problems related to educa-

tion and work, adequate data gathering, achieving national coverage of educational broadcasting facilities, insuring an adequate teacher supply, eliminating functional illiteracy and program evaluation. The appropriateness of this entire objective or any of its pieces can be debated, however, it reflects the real world in which HEW believes it must operate.

The introduction of the education block grant concept (Financial Assistance for Elementary and Secondary Education Assistance Act) changes the Federal objectives and the role of the Education Division in significant ways.

The responsibility for providing equal educational opportunity, objective #1, is returned to the States. Bureaucratic constraints, such as requirements to submit multiple applications, are lessened and the flexibility of use of Federal funds is provided the States to accomplish this objective. Safeguards exist within the legislation to assure that State and local education agencies adequately address the needs to special groups, such as the disadvantaged and handicapped.

Objective #2 is subsumed under the block grant and the opportunity to decide how much general support will be provided for these activities, would now be decided at the State and local level.

Objectives #3 and #4 would be continued as valid objectives for the Education Division with the primary responsibility for research, demonstration of research and dissemination of its research product resting with the National Institute of Education and identification and demonstration of exemplary programs and practices and the dissemination of these results to State and local education agencies as the main thrusts of the Office of Education. In addition, the Office of Education would have the responsibility of responding to critical national need in such areas as school desegregation, eliminating functional illiteracy and data gathering. In most of these areas, there should be identified specific problems to be addressed, objectives and timetables for the solution of these problems and long range plans for the termination of Federal programs when solutions have been realized.

The staff recommendations for the block grant issue which follow, move the Federal role further in the directions contemplated by the President when he decided to propose an education block grant. However, there are no signs that the Education Division is making serious plans for how they would operate under the block grant.

The Department should be instructed to submit a plan, along with 1978 budget materials, which shows how they would organize to meet their lessened responsibilities, and what and how many fewer staff positions would be needed.

1978 Spring Planning Review
Major Education Evaluation Studies

Studies Underway in FY 1976

Programmatic:

- A study of the sustaining effects of compensatory education -- \$2.6 million administered by the Office of Education.
- Technical Assistance to States for Title I Evaluation -- \$1.6 million administered by the Office of Education.
- Analysis of Follow Through Evaluation Data -- \$1.1 million administered by the Office of Education.
- Evaluation of implementation of project information packages -- \$.9 million administered by the Office of Education.
- Study of the Emergency School Aid Act television project -- \$.7 million administered by the Office of Education.
- Study of the student financial aid programs -- \$.1 million administered by the Office of Education.
- Research into the effects of compensatory education demonstration projects -- \$2.8 million administered by the National Institute of Education.

Management Initiatives:

- A study to implement a personnel position accounting system.
- A study of manpower utilization (workload, distribution and manpower planning).
- A study to implement an accounting data and error correction system.
- A study to develop an obligation-based operating plan.
- A study to implement a property accounting system.
- A requirements analysis to automate program data for the campus-based student financial aid programs.
- A study to automate all data concerning payments in the Impact Aid program.
- A study to standardize reporting in the 10 regions for the Guaranteed Student Loan program.
- A study of procedures to monitor lender activity and loan collections.

Studies Proposed in FY 1977

Programmatic Impact Evaluations and Policy Studies:

- *A study of the sustaining effects of compensatory education -- \$25 million, to be administered by the Office of Education on basic cognitive skills over a seven-year period (1975-82). 1977 proposed level -- \$2.6 million.

* Mandated by P.L. 93-380 (the Education Amendments of 1974).

- *Evaluation of the Title I, Elementary and Secondary Education Act, as amended migrant program -- \$.93 million: to be administered by the Office of Education.
- Technical Assistance to States for Title I Evaluation -- \$.825 million to be administered by the Office of Education.
- A study of the effectiveness of the Emergency School Aid Act human relations project -- \$1.3 million to be administered by the Office of Education.
- Evaluation of the implementation of project information packages -- \$1.0 million to be administered by the Office of Education.
- *Research into the effects of compensatory education demonstration projects -- \$5.0 million to be administered by the National Institute of Education.
- *A study of experimental compensatory education demonstration projects -- \$.5 million to be administered by the National Institute of Education.
- *Safe school studies -- \$.5 million to be administered by the National Center for Education Statistics (a data collection survey).

Management Initiatives:

- An ADP initiative; creation of a successor system for the Guaranteed Student Loan program which will provide timely data in terms of lender characteristics, schools and borrowers.

* Mandated by P.L. 93-380 (the Education Amendments of 1974).

- A student validate study for the Basic Educational Opportunity Grant program to validate student entitlements and determine the nature of application errors (20,000 case sample).
- Continuation of the manpower management utilization study, validation of workload measurements.

Suggested Studies

- Low cost study to estimate potential personnel/administrative costs savings as a result of the consolidation of numerous programs under the Financial Assistance for Elementary and Secondary Education Act (Block Grant). The result could lead to reduced salaries and expenses requests and concomitant savings.
- A study to assess the nature of, magnitude, and utility of the technical assistance and monitoring functions performed by regional office and central office field representatives.
- A study to determine the characteristics of those students who claim "independent" status on their BEOG application forms and the cost implications for the basic grant program. The results of this study will be used to determine how to "redefine" (through administrative or legislative steps) for award purposes "independent students."

Summary Tabulation
Outlays

Program	1976	1977			1978			1979		
	Current Estimate	Current Policy	Poten. Level	Low Option	Current Policy	Poten. Level	Low Option	Current Policy	Poten. Level	Low Option
Block Grants	--	294	--	--	2,351	525	495	3,092	2,548	2,374
Elementary and Secondary	2,289	2,037	2,269	2,269	577	1,990	1,838	191	812	602
Indian Education	42	45	48	48	42	56	41	40	55	40
Impact Aid	533	458	716	716	366	736	366	330	767	330
Emergency School Aid	235	221	222	222	240	243	240	245	248	245
Education of the Handicapped	199	191	268	268	84	294	283	6	140	82
Vocational and Adult Education	674	672	777	777	268	681	667	196	323	297
Higher Education	2,610	2,597	2,959	2,959	2,349	2,673	2,653	2,327	2,640	2,336
Library Resources	141	137	166	166	100	165	142	79	123	63
Educational Development	18	4	4	4	1	1	1	--	--	--
Special Projects and Training	6	39	41	41	56	61	59	63	69	64
Educational Activities Overseas	2	2	2	2	2	2	2	2	2	2
Salaries and Expenses	109	113	115	115	115	116	114	115	117	115
Student Loan Insurance Fund	107	91	91	91	100	100	100	150	150	150
Higher Education Facilities Loan Insurance Fund	9	13	13	13	8	8	8	6	6	6
National Institute of Education	70	88	88	88	90	90	90	90	90	90
Assistant Secretary of Education	24	32	32	32	33	33	33	33	33	33
Special Institutions	141	136	136	136	130	130	126	121	121	117
Child Development	476	475	475	475	478	478	458	478	478	458
Total	7,685	7,643	8,420	8,420	7,390	8,384	7,718	7,565	8,724	7,406

Analysis of Changes
(in millions of dollars)

	<u>1977</u>		<u>1978</u>		<u>1979</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Base estimates	7,870	7,643	7,627	7,390	7,871	7,565
Congressional Actions						
Probable 1976 Supplemental Increases						
1. Elementary and Secondary	3	3	3	3	3	3
2. Emergency School Aid	3	2	3	3	3	3
3. Education for the Handicapped	--	28	--	19	--	--
4. Higher Education	1	350	1	40	1	1
5. Office of Education Salaries and Expenses	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Subtotal	9	385	9	67	9	9
Congressional Actions						
Probable 1977 Appropriation Increases						
1. Elementary and Secondary	210	32	222	154	240	203
2. Indian Education	15	2	15	14	15	15
3. Impact Aid	369	258	418	370	466	437
4. Education for the Handicapped	90	11	90	58	90	90
5. Vocational Education	30	14	30	26	30	30
6. Higher Education	321	12	321	285	321	312
7. Library Resources	19	3	19	13	19	16
8. Innovation	<u>7</u>	<u>2</u>	<u>7</u>	<u>5</u>	<u>7</u>	<u>6</u>
Subtotal	1,061	334	1,122	925	1,188	1,109

	1977		1978		1979	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Reestimates to support assumption that Congress will not provide funds for Block Grant and that passage will slip until 1978						
1. Elementary and Secondary	2,073	197	--	1,257	--	415
2. Education for the Handicapped	236	38	--	133	--	44
3. Vocational Education	607	91	--	387	--	97
4. Libraries	137	26	--	51	--	28
5. Block Grant	<u>-3,300</u>	<u>-294</u>	<u>--</u>	<u>-1,826</u>	<u>--</u>	<u>-543</u>
Subtotal	-247	58	--	2	--	38
Most likely level	8,693	8,420	8,758	8,384	9,068	8,724
1. Resist likely congressional increases for certain education programs		--	-825	-599	-873	-781
2. Phase out the Bilingual Education program		--	-25	-1	-45	-18
3. Terminate all higher education institutional assistance programs except Developing Institutions, Language and Area Studies and Cooperative Education	--	-12	-60	-12	-60	-48
4. Eliminate the Cooperative Education and Language and Area Studies programs		--	-18	--	-18	-18

	1977		1978		1979	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
5. Do not continue Special Institutions non-faculty increases	--	--	-4	-4	-4	-4
High alternative target	8,693	8,420	7,826	7,768	8,068	7,855
1. Do not renew the 1977 Library budget amendment beyond 1978	--	--	-62	-20	-62	-47
2. Reduce College Work Study to the 1977 request level	--	--	-90	--	-90	-68
Medium alternative target	8,693	8,420	7,674	7,748	7,916	7,740
1. Eliminate NDSL capital contributions	--	--	-160	--	-160	-160
2. Eliminate the sweetner from the block grant	--	--	-200	-30	-400	-174
Low alternative target	8,693	8,420	7,314	7,718	7,356	7,406

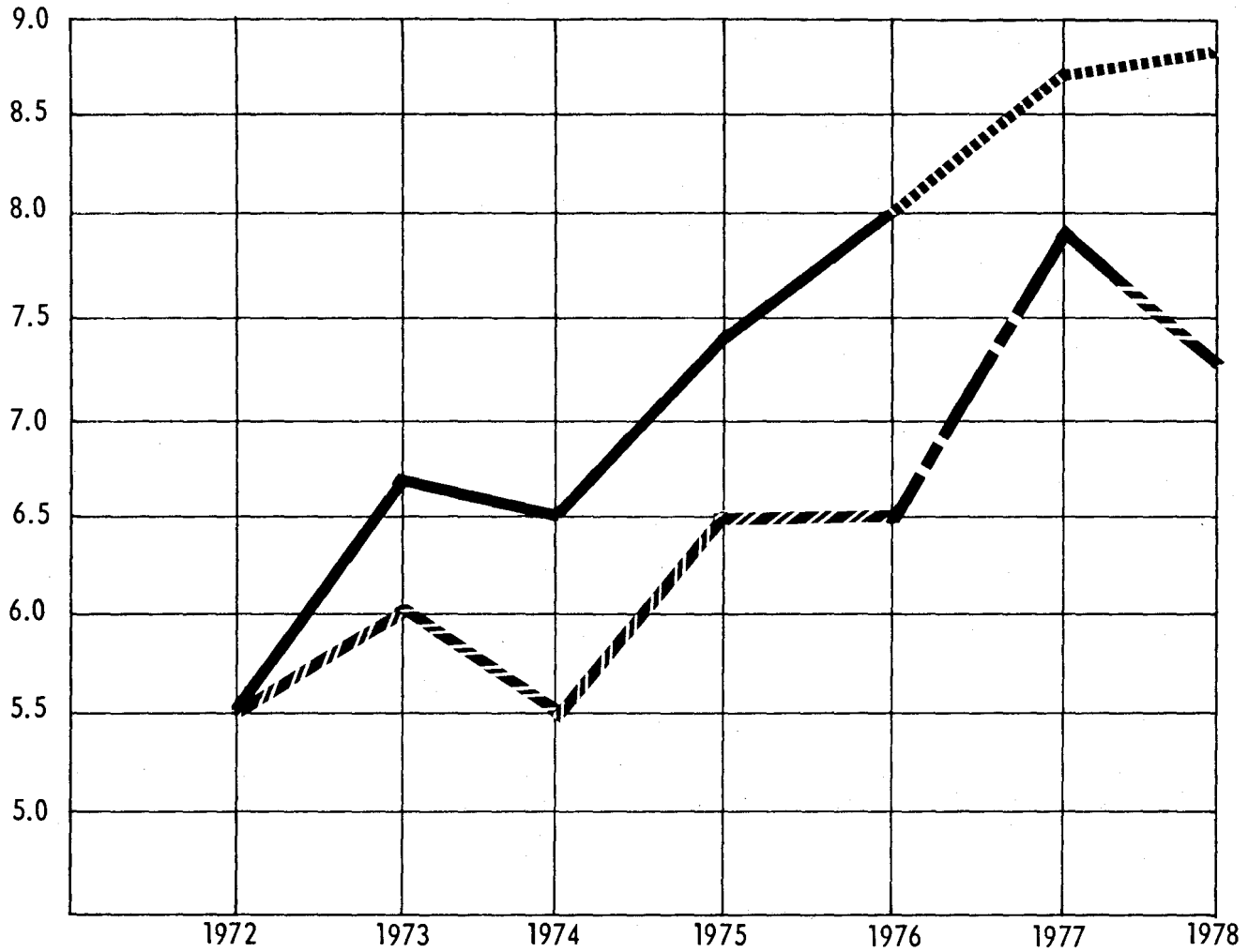
Summary of agency totals
(in millions of dollars)
Education Programs

	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Budget authority</u>			
Base estimate	7,870	7,627	7,871
Potential level			
(Base & budget threats)	8,693	8,758	9,068
High alternative target	8,693	7,826	8,068
Medium alternative target	8,693	7,674	7,916
Low alternative target	8,693	7,314	7,356
<u>Outlays</u>			
Base estimate	7,643	7,390	7,565
Potential level			
(Base & Budget threats)	8,420	8,384	8,724
High alternative target	8,420	7,768	7,855
Medium alternative target	8,420	7,748	7,740
Low alternative target	8,420	7,718	7,406

Education Programs
Trends in Outlays FY 1972 - FY 1976 (Millions)

<u>Program</u>	<u>FY 1972</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>FY 1975</u>	<u>Curr. Est. FY 1976</u>
Civil Rights Education	22	10	---	---	---
Block Grants	---	---	---	---	---
Elementary and Secondary	1,888	1,820	1,667	2,277	2,289
Indian Education	---	---	16	40	42
Impact Aid	649	580	559	619	533
Emergency School Aid	72	41	205	216	235
Education of the Handicapped	94	106	123	151	199
Vocational and Adult Education	509	607	570	653	674
Higher Education	1,287	1,376	1,176	1,838	2,610
Library Resources	75	93	150	226	141
Educational Development	204	239	246	175	18
Special Projects and Training	---	---	---	---	6
Educational Activities Overseas	2	2	2	2	2
Salaries and Expenses	51	66	77	96	109
Student Loan Insurance Fund	27	43	84	111	107
Higher Education Facilities Loan Insurance Fund	24	9	12	16	9
National Institute of Education	---	36	97	83	70
Assistance Secretary of Education	---	1	1	13	24
Special Institutions	76	100	113	124	141
Child Development	216	384	417	429	476
Grant Total	<u>5,196</u>	<u>5,511</u>	<u>5,515</u>	<u>7,069</u>	<u>7,685</u>

APPROPRIATIONS AND BUDGET REQUESTS
FY 1972-1978



Legend

- Request
- Current Policy
- Low Option
- Appropriation
- Potential Level

1978 Spring Planning Review
Department of Health, Education and Welfare
Issue #E-1: Block Grants

Statement of Issue

What should be the components of the Block Grant proposal for education in the FY 1978 President's Budget?

Background

The Administration has submitted to the Congress a legislative proposal to consolidate 24 programs into one large block grant with \$3.3 billion budgeted for the first year of operations, FY 1977. The objective of the block grant is to allow the State and local education agencies greater flexibility in the use of Federal funds and to reduce Federal requirements for these funds. Two factors lead us to believe that there will not be action by the Congress on this proposal this year. One of these factors is the already full schedules the substantive committees have with higher education and vocational education coming up for action this spring. In addition, since the Congress reauthorized the elementary and secondary programs in the Education Amendments of 1974 (P.L. 93-380), the Congress is clearly unwilling to even consider these issues. Consequently, in the FY 1978 budget the Administration may want to take additional steps to further these objectives.

The current proposal contains funding planning amounts at the following levels:

1977 - \$3.3 billion
1978 - \$3.5 billion
1979 - \$3.7 billion
1980 - \$3.9 billion
1981 - \$4.1 billion

These increments of \$200 million are a "sweetener", added in order to induce favorable congressional action on the proposal. The programs included in the proposal span the areas of elementary and secondary, handicapped, vocational and adult education and school libraries. In the main, they represent those formula grant authorities that have flowed through the States to local educational agencies.

Alternatives

- #1. Repropose the program in its current state and allow for a 1-year slippage to 1978 before it becomes effective (Agency preference).
- #2. Provide for the inclusion of several discretionary and State formula authorities in addition to those currently proposed for consolidation. However, do not provide for the \$200 million "sweetener," but only budget for those amounts for the discretionary activities concerned that are contained in the FY 1977 President's Budget (HRD recommendation).
- #3. Provide for an even more broadly based initiative by additionally including the Impact Aid program, over and above the authorities described in alternative #2.

The following table illustrates the current make-up of the proposal (Alternative #1) and the incremental results of Alternatives #2 and #3. The right hand column illustrates the impact of both alternatives over currently budgeted levels, if likely increases are provided for in order to induce favorable congressional action on the proposal.

(FY 1976 levels in millions of \$)

<u>Alternative #1</u>	Title I	\$2,050,000
	Title IV	184,522
	Handicapped	236,375

Vocational Education	539,349
Adult Education	71,500
Libraries	<u>147,330</u>
Subtotal	3,229,076
Additional funds	<u>70,924</u>
Total	3,300,000 ^{1/}

New programs to be added: (FY 1977 BA request levels) (FY 1977 likely BA levels)

<u>Alternative #2</u>	Public Libraries	+51,749	+51,749
	50% Teacher Corps In-service training	+18,750	+18,750
	Follow Through	<u>+30,000</u>	<u>+59,000</u>
	Subtotal	3,400,499	3,429,499
	(Increase above FY 77 request level)		(+29,000)
<u>Alternative #3</u>		<u>+325,000</u>	<u>+743,000</u>
	Grand Total	3,725,499	4,172,499
	(Increase above FY 77 request level)		(+447,000)

^{1/} Does not reflect an FY 1978 "sweetener" of \$200 million.

Alternative #1

This would be a simple extension of the current legislative strategy. It would continue this initiative on primarily a State formula grant basis, with support limited to those areas agreed upon in the FY 1977 budget/legislative process. HEW is likely to indicate support for the current initiative since it is the result of substantial negotiations among the Department, the Congress and lobbying and public interest groups. Movement either from the programmatic or financially agreed upon bases, without significant prompting by concerned groups, could be viewed as a breach of good faith.

In supporting the continuation of current policy, the Department would oppose any diminution of fiscal commitment on the part of the Administration. They argue that any reduction in budget request levels constitutes a serious obstacle to the proposal's acceptance by the Congress.

Alternative #2

The HRD recommendation would provide for a minor (+\$100.5 million in 1978 BA) increase to the original 1977 program and funding bases for the block grant. However, these increases to the block grant would result in no OE overall funding increase, since no support would be provided for these authorities (or parts of authorities) as separate entities, as is currently done. In addition, in order to achieve the goal of a balanced budget, no provision would be made for the previously budgeted \$200 million "sweetener." This total reduction in budgeted levels saves an estimated \$30 million in 1978 and \$145 million in 1979. The proposal would allow States, if they choose, to use block grant funds for inservice training of teachers and administrators to meet the needs of disadvantaged students.

These proposals are predicated upon the following factors:

- The public libraries program is a State formula grant activity that, as the bulk of the other programs in this initiative, goes through

States to recipients at the local levels. While these recipients are public libraries rather than school districts, the libraries' inherent place in the local educational structure leads us to seriously consider placing them in the proposal. It should be noted that public libraries was included in the Administration's original block grant proposal in the 1977 budget but was deleted as a concession to Mr. Quie for his support.

- The President has declared that quality education is the alternative to forced busing of children to achieve integration. The Council of Chief State School Officers believe that the best way to achieve better quality is to improve the level of staff performance. The President, in his February 16, 1976, speech to the National Association of Secondary Principals stated: "Education relies on people and on the teachers who work in the schools, on the administrators who direct them." Recent initiatives in the areas of inservice teacher training have indicated that this is increasingly becoming an effective instrument for improving classroom achievement.

The Council of Chief State School Officers has endorsed a proposal to have an ESEA Title I set-aside to retrain and upgrade staff. The Commissioner of Education has proposed, and in 1976 the Administration approved, a program to provide inservice training for education administrators.

The authorities currently included in the block grant allow inservice training only for teachers and administrators relating to specifically funded projects. This proposal would allow State and local agencies to spend funds for the upgrading of all staff who serve disadvantaged children.

- There are no firm indications from the Congress that the "sweetener" will bring about any greater notion of acceptability on the part of

the Congress. These substantial increments of \$200 million annually will likely, once perceived as a commitment by the Administration, translate into a base for even greater increases in this area. This appears as far too high a price to pay in later years. However, Congress can (and will) say that consolidation is only a ploy to camouflage budget reductions. Mr. Quie, upon introducing the bill, specifically cited the \$200 million increment as a remedy for the congressional complaint.

Alternative #3

This alternative, in addition to the new initiatives discussed in alternative #2, would also include Impact Aid into the block grant in 1978. It must be stated, at the outset, that this alternative is extremely unrealistic politically and stands virtually no chance of acceptance by the Congress. This judgment is based upon:

- Impact Aid is not a State formula grant program. It is a program of direct, general support to local educational agencies for any sort of educational activity the agency sees fit.
- Since it does not currently flow through State educational agencies, placing it in this proposal would require eligible Impact Aid districts to "compete" with other local educational agencies for these funds. The alternative to this would be to earmark these funds for direct "pass-thru" to eligible districts, which would, in effect, obliterate the purpose of the initiative. (Issue paper #E-2 goes into greater detail on the specific issue of Impact Aid.)



Budgetary effects (outlays in millions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #1 (Agency preference)	525	2,548	3,350	3,745
Alternative #2 (HRD recommendation) ^{1/}	510	2,446	3,086	3,296
Alternative #3	558	2,680	3,417	3,692
Current Policy Level ^{2/}	2,351	3,092	3,488	3,745
Most Likely Level	525	2,548	3,350	3,745

Implementation of HRD Recommendation

The Department should be directed to plan for a 1-year delay in the implementation of the program into 1978 and to begin planning to fold the three additional authorities recommended into a new legislative authority.

1/ The HRD recommendation, while providing for an increase of \$100 million in regular program BA (offset by concomitant decreases within OE), provides for a net decrease in 1978 (-\$100 million) and incremental decreases of \$200 in each succeeding year in the elimination of the annual sweetener.

2/ Reflects current policy of enactment in time for the FY 1977 budget.

1978 Spring Planning Review
Department of Health, Education, and Welfare
Issue #E-2: Impact Aid

Statement of Issue

What should be the Administration's position with regard to the level and type of support for school districts affected by Federal activities?

Background

The Impact Aid program provides direct, general support to school districts intended to offset property tax revenue lost due to Federal activities in the district. Support is authorized for three types of students:

- "a" category: Those whose parents both live and work on Federal property (mostly connected with the uniformed military services).
- "b" category: Those whose parents either live or work on Federal property.
- "c" category: Those whose parents either live or work in low-rent public housing. (Authority to provide support for these children has been in existence for several years, but never funded. However, the Education Amendments of 1974 required that support for this category be provided, and funding is provided for the first time.)

In addition, the Amendments of 1974 provided for a three-tiered funding system. The first level would provide minimal support for all students, irrespective of category. The second tier provides an incremental, graded funding structure that has varying levels of support for the different types of students. Thus, military "a" category students would receive more support than "b" category students whose parents work on Federal property that is not within the county in which they attend

school. However, Congress also required that if any funds are provided above the first tier into this second tier, the second tier must be fully funded. The third and final tier is another incremental level, but is not mandated at any level. In addition, there are complex and potentially costly series of "hold-harmless" provisions.

The FY 1976 and FY 1977 President's Budget proposed two distinct initiatives aimed at reforming this program:

FY 1976: Reform was proposed from the fiscal equity viewpoint. That is, reforms were based upon the premise that Federal activities are not solely adverse and that there are certain positive economic benefits that result such as: employment increases, greater taxes, etc. Payments to school districts would be made as follows:

- 100% of entitlement for "a" category children when they comprise 25% or more of the average daily attendance in the district.
- 90% of entitlement for "a" category children when they comprise less than 25% of the average daily attendance in the district.
- 68% of entitlement for "b" category children, less the amounts provided for "b" children in States other than the ones in which they attend school.

Payments were to be made at these rates -- less 5% of the school district's total operating budget for the previous year.

The Administration requested \$266 million for this proposal. The Congress rejected this new initiative and provided \$680 million.

FY 1977: There would be a continued emphasis on the equity aspect. Funding would be provided as in the FY 1976 initiative, but there would be no funding for "b" category or "c" category children. In effect, by only funding "a" category children, the program basically becomes a "tuition subsidy" for military dependents.

The issues that spawn these reform initiatives revolve around the basic question of what constitutes a hardship as the result of Federal activities within a school district. For example, the great majority of "b" category families work on Federal property but reside on private, taxable land. Further, it may be that both parents are employed with only one employed by the Federal Government on Federal property. Nevertheless, the full amount is provided for these children, even though only one parent is Federally connected.

Another cause for questioning the current level of support for this program is the indirect economic benefits that accrue to a school jurisdiction as a result of a Federal presence. These would be such factors as: increase in retail activity, income sales and real estate taxes, increase in property values, etc. No provision is made to offset these benefits in determining payments. On the other hand, these benefits are somewhat diluted by PX and commissary patronage by Federal employees near military bases.

The current status of the Administration's reform initiative is bleak. It has not been introduced and it remains likely that it will receive little consideration at all. Should this hold true, the latest HEW estimate of likely congressional FY 1978 appropriations action is approximately \$743 million. This represents an increase of \$418 million in BA above the current policy estimate of \$325 million for FY 1978.

In addition, for 1976, HEW estimates the following minimal amounts will be provided to the following school districts: 1/

(BA in millions of \$)

District of Columbia	\$ 6.01
Fairfax County	11.15
Arlington County	1.09
Montgomery County	2.89
Prince George's County	5.60

1/ They do not include as yet uncalculated "hold-harmless" amounts which may be substantial.

Finally, to further demonstrate the ballooning growth of the program the following table shows the amounts of "c" category funds going to several large urban school districts in 1976, as compared with their Title I, ESEA - education for the disadvantaged funds for 1976:

	(BA in thousands of \$)	
	<u>"c" Category</u>	<u>Title I, ESEA</u>
New York City .	\$10,512	\$117,663
Boston	531	7,591
Detroit	310	19,525
Dallas	412	5,584
Baltimore	1,410	13,099
New Orleans	422	8,149
Los Angeles	1,160	27,533
Atlanta	898	4,836
District of Columbia	2,535	10,691
Philadelphia	2,584	25,366

Alternatives

- #1. Given likely congressional action, accept the increase in appropriations and abandon the reform position. (Agency preference).
- #2. Retain the Administration's current reform strategy and continue to press for acceptance by the Congress. (HRD recommendation).
- #3. Readopt, as the Administration's strategy, the reform proposal contained in the FY 1976 President's Budget. This would provide payments for "a" and "b" category students, but would require that 5% of the school districts' previous year's total operating budget be deducted from their payment.
- #4. Fold Impact Aid into the Block Grant. A thorough examination of this option is examined in light of the Block Grant proposal itself in Issue Paper #E-1.

Analysis

There does not appear to be any programmatic reason to abandon the Administration's position. The concept of ancillary economic benefits offsetting the adverse effects of Federal activities in a school district is a sound one. Moreover, the fact that the bulk of the "b" category students' parents live on private taxable land further reinforces the soundness of the Administration's initiative. The concept behind this program is to provide support to school districts due to loss of revenue from Federal activities on property that otherwise could be subject to tax. Every Administration since Truman has agreed with this concept. The FY 1977 budget strategy reflects the Administration's continued commitment to this principle. Abandonment of this legitimate aim has led the program to become a broad tuition subsidy for Federal employees' dependents.

In this regard, we believe some discussion of the factors that are at issue with the Congress is required. First, as the program stands, the impasse with the Congress is firm and incrementally widening. However, we do not believe that the Administration should rule out the acceptability of compromise on the level of support. The basis for this compromise ought to be the question of devising some means for accurately determining the true effects on the fiscal life of a community (both positive and negative) as caused by Federal activities. In other words, add up the ancillary economic benefits and the detriments and use the difference as a basis for Federal offsetting payments.

A recent study, funded by HEW, has proposed to examine this very issue. The proposal includes a broad and thorough range of factors to measure both the "pros" and "cons" of Federal activity. The Department has only begun to examine this issue. However, we believe it may form the basis, as yet undetermined, for a new initiative.

Alternative #1

This would abandon the current reform strategy contained in the FY 1977 budget and fully fund the existing legislation. It would add, as presently estimated, the following amounts in 1977 and beyond, in both BA and outlays:

	(In millions of dollars)				
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Budget Authority	+369	+418	+466	+516	+570
Outlays	+258	+370	+437	+492	+546

This amounts to increases totaling \$2,339 million in budget authority and \$2,103 million in outlays for these years. These estimates, in addition, are conservative and do not reflect any congressional penchant for other increases. In allowing these increases, it would signal the end of any reform efforts by the Administration. However, it would prevent the now recurring "cliff" in the education appropriations that results from low Administration funding levels and ever increasing congressional marks.

Alternative #2

This alternative would hold fast to the Administration's current reform posture. On program grounds this position has considerable merit. It continues to rely upon the valid premise that there are related benefits to Federal activities and these must be weighed against any adverse effects. However, this alternative insures a major and ever growing difference between what the Congress is likely to do and what the Administration is requesting. These discrepancies, as discussed above, lead to truly major (\$500 million plus) increases in succeeding fiscal years.

Alternative #3

This strategy, as once proposed in the FY 1976 President's Budget, represents a moderate compromise from the reform strategy contained in alternative #2. Its principle features are some provision for "b" students, as well as emphasis on absorption by school districts of a certain portion of the costs. Although current data are not available, at the time when this proposal was developed, we estimated that approximately 3,400 out of 4,400 school districts had less than 5% of their total

operating budget from impact aid and would, therefore, receive no payment. Yet, these 3,400 districts' payments resulted in actual FY 1976 appropriations of nearly \$400 million. However, little congressional acceptance can be anticipated for this measure.

Budgetary effects (outlays in millions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #1 (Agency preference)	736	767	817	871
Alternative #2 (HRD recommendation)	350	330	325	325
Alternative #3	388	379	375	375
Current Policy	350	330	325	325
Most Likely	736	767	817	871

Implementation of HRD Recommendation

The Department should be directed in their policy letter to continue along currently budgeted amounts and to press for reform.

1978 Spring Planning Review
Department of Health, Education, and Welfare
Issue #E-3: Student Assistance

Statement of Issue

What should be the Administration's strategy on Student Aid programs?

Background

Office of Education Student Aid programs include:

Basic Educational Opportunity Grants (BOG)
Supplemental Educational Opportunity Grants
College Work Study
National Direct Student Loans
State Student Incentive Grant Program.

With the exception of basic and state student incentive grants, control of these program funds and the decisions about who will receive aid, rests with institutional aid officers. A description of all of these programs is attached.

The Administration has stressed attainment of equal access to postsecondary education and has argued that basic grants are the most efficient and equitable way to achieve equal access because Federal funds are distributed to students according to need. Under basic grants families are expected to contribute to the student's higher education based on family income. The difference between what the family is expected to contribute and the cost of going to a particular institution is defined as "student need." Identical grants go to students with identical financial circumstances (identical costs of attendance and income), regardless of State of residence or location of school. On the other hand, supplemental grants, work study and direct loans are distributed to schools, where the financial aid officer is responsible for their

allocation among needy students. Under these "college-based" programs, students with identical need are not necessarily treated alike. However, student financial aid officers claim that the needs of students are better met through the "packaging" of aid funds to reach a total amount sufficient to assure the student's ability to meet costs. In addition, campus-based programs offer an additional financial advantage to higher education institutions because up to a fixed percentage of grants going to institutions for student awards may be used for administrative expenses. Under the Basic Grant program, institutional assistance is provided by subsidizing students directly.

Since FY 1973, the Administration has consistently proposed to fully fund basic grants, i.e., provide sufficient funds so that each student may obtain a full "entitlement" of up to \$1,400 minus expected family contribution. It also has consistently proposed to terminate funding for the direct loan capital contribution, hold college work study to a reasonable level, and provide no funds for supplemental opportunity grants. Congress has traditionally reacted to the Administration's requests by not fully funding the basic grant program, and by diverting funds to the campus-based programs. In part this reflects the influence of college student aid officers.

Congressional unwillingness to appropriate full funding levels resulted in a phased-in program over a four-year period -- with the grants available only to freshmen in academic year 1973-74, freshmen and sophomores in 1974-75 and freshmen, sophomores and juniors during the current 1975-76 year. The basic grants program is fully funded during the current 1975-76 academic year for these three classes of students, with maximum and average awards of \$1,400 and \$789 respectively.

During the current academic year there has been an unanticipated surge in the rate of student participation from a projected 56% of those eligible to a 74% actual rate. That higher participation level is expected to continue in the 1976-77 academic year, when the program will be open to all four classes of undergraduates. The full-funded cost of BOGs for academic year 1976-77 is now estimated at \$1,327 million.

The Administration has proposed two 1976 supplementals for BOGs. The first supplemental -- of \$180 million -- was designed to replace funds reprogrammed from the 1976 appropriation for use in the current 1975-76 school year. This was caused by the shortfall in funds during the current year. The second supplemental -- of \$224 million -- was designed to increase awards for school year 1976-77. In the absence of added funding, increased student participation would have reduced average awards by approximately 50 percent. The Administration suggested that Congress could fully fund the BOGs program, i.e., provide \$388 million in additional funds needed to fully fund the program, by transferring and reprogramming funds from lower priority education programs. Congressional response, thus far, has been for the full House to reject reprogramming and transfers and to pass a supplemental appropriation for BOGs of \$612 million, the amount required to fully fund the program. This action reflects pressures brought about by the increasing popularity of the basic grant program. We believe, however, that given the new congressional budget procedures, it will be increasingly difficult for the Congress both to fully fund the basic grant program, and to fund the campus-based programs at levels comparable to recent appropriations. Congress may very likely fully fund the BOGs program and reduce the level of funding in the campus-based programs.

The full funded cost for fiscal year 1977 is now expected to be \$1,379 billion, \$279 million above the amount anticipated when the 1977 budget was submitted. The basic policy issues in this area are:

- Given rising costs, should the Administration continue to seek full funding for basic grants in the FY 1978 budget?
- What should be the role of the college-based programs?
 - . Should the Administration change its strategy for unwanted college-based programs from immediate termination to one of gradual phaseout?

Alternatives

- #1. Maintain the current Administration strategy of fully funding basic grants, and do not fund the campus-based programs except for the work study program (HRD rec.).
- #2. Do not fully fund basic grants, but request an amount equal to that originally estimated as the fully funded level in the 1977 budget, prior to the increase in student participation. Do not fund the campus-based programs except for the work study program.
- #3. Fully fund the basic grants program, and fund the work study program at a higher level than the Administration has recently requested. None of the other campus-based programs would be funded (Likely agency preference).
- #4. Fully fund the basic grants program, fund the work study program at a higher level than the Administration has recently requested, and provide some funding in the direct loan program and the supplemental educational opportunity grant program, in an attempt to ultimately phaseout these programs.

Analysis

Budgetary effects (\$ in millions):

		<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #1 (HRD rec.)	BA	2,095	2,095	2,095	2,095
	O	2,552	2,168	2,115	2,113
Alternative #2	BA	1,816	1,816	1,816	1,816
	O	2,552	1,988	1,917	1,913

		<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #3 (Agency Preference)	BA	2,185	2,185	2,185	2,185
	O	2,552	2,236	2,199	2,201
Alternative #4	BA	2,445	2,445	2,445	2,445
	O	2,552	2,476	2,460	2,461
Current policy level	O	2,206	2,131	2,115	2,113
Most likely level	O	2,552	2,476	2,460	2,461

The four alternatives have the following program components in terms of FY 1978 BA.

(\$ in millions)

	<u>1976</u> <u>Appro.</u>	<u>1977</u> <u>Budget</u>	<u>Alt. #1</u>	<u>Alt. #2</u>	<u>Alt. #3</u>	<u>Alt. #4</u>
Basic Grants	\$1,327 <u>1/</u>	\$1,379 <u>3/</u> \$1,379	\$1,379	\$1,100	\$1,379	\$1,379
Supplemental Grants	240	-0-	-0-	-0-	-0-	100
Work Study	390 <u>2/</u>	250	250	250	340	340
Direct Loans	332	12	12	12	12	12
State Student Incentive Grants	44	44	44	44	44	44
Guaranteed Loan Student Aid subsidies	452	400	410	410	410	410
	<u>2,785</u>	<u>2,085</u>	<u>2,095</u>	<u>1,816</u>	<u>2,185</u>	<u>2,445</u>

1/Reflects full House action of \$612 M supplemental for basic grants for school year '76-77. Excludes \$180.2 M used to replace '76 funds reprogrammed for the '75-76 academic year.

2/Excludes one-time work study appropriation of \$119.8 M passed in 1976 continuing resolution.

3/Number printed in budget was \$1.1 billion. \$1,379 M reflects new estimate of full funding.

Alternative #1 (low alternative)

This reflects the current policy of full funding of BOGs adjusted for higher participation, and little funding for the campus-based programs. This alternative embodies the general Administration strategy of reliance on basic grants, some work study, and guaranteed loans.

Alternative #2

This is the same as Alternative #1, except that the basic grants program is funded at \$1.1 billion, the level originally proposed in the 1977 budget. This would represent a fiscally austere approach to higher education programs, in that neither basic grants nor the campus-based programs would be funded at high levels.

This budget strategy would place heavier reliance on guaranteed loans. Normally, the role of guaranteed loans is to complement basic grants for students who want to attend more expensive schools/or whose higher family income does not qualify them for grant support. Under this option, guaranteed loans would substitute for need-based grants.

Alternative #3 (Medium alternative)

Alternative #3 represents all of the elements contained in Alternative #1, along with some accommodation in terms of increased funding for the work study program.

Alternative #4 (High alternative)

Instead of completely eliminating the direct loan program, Alternative #4 would request approximately half of the 1976 NDSL appropriation level and \$100 million for SEOG. In all other respects, this option is identical to #3. This option is the least fiscally austere, and represents the most accommodation with respect to the campus-based programs.

The Administration, in its higher education reauthorization submission to the Congress, proposed that schools in the NDSL program be given the option of becoming qualified lenders under the guaranteed student loan program. The interest rate would be raised to 8 percent and schools would, in effect, receive payments for the in-school interest subsidy. The funding level for NDSL in this option would be targeted on schools whose late participation in the program has left them with small loan revolving funds.

Office of Education Student Aid Programs

Basic Grants

- Education Amendments of 1972.
- An "entitlement" program which provides grants of up to \$1,400 depending on need directly to eligible students in postsecondary education.
- Each student "entitled" to up to \$1,400 a year (minus "expected family contribution"), not to exceed one-half costs.
- If appropriations insufficient to fully fund all "entitlements," statute provides system to reduce grants accordingly.
- Government or contractor deals directly with student to establish his need. School has no say on amount of award.
- Estimate of full funding costs for school year 1976-77 is \$1,327 million.

Supplemental Grants

- Higher Education Act, 1965.
- For students of "exceptional financial need" who would not, but for the grant, be financially able to pursue education at their school.
- Student may or may not have a Basic Grant, or other Federal aid.

- Federal Government provides 100% of funds.
- Student receives up to \$1,500 per year, but not over \$4,000 for four years.
- For 1976-77, FY 1976 appropriation of \$240 million will provide average grants of \$539 to an estimated 445,000 students.

Work Study

- Higher Education Act, 1965.
- Part-time employment at school or nonprofit organization for students who need earnings to finance education at their school.
- Student may or may not have Basic Grant or other Federal aid.
- Federal Government provides up to 80 cents for each dollar of salary.
- Program in fact aids schools as well, e.g. by permitting them to keep library open later with student help.
- For 1976-77, FY 1976 appropriation of \$390 million will support estimated 895,000 students in part-time jobs paying an average of \$525.

Direct Loans

- National Defense Education Act, 1958 as amended.
- For students who need loan to pursue course of study at their school.
- Student may or may not have Basic Grant or other Federal aid.



- Revolving funds at 2,800 institutions have received approximately \$3 billion in Federal capital contributions since 1958.
- School must match each 90 cents of Federal contribution with 10 cents of its own.
- Student pays nothing while in school, and repays at 3% interest thereafter
- New loans averaging \$690 to estimated 834,000 students in 1976-77 financed by \$321 million Federal capital contribution, \$33 million school contributions, and estimated repayments of \$228 million.

Under the three institution-based programs funds are divided by State according to three different formula grants set by law. Within each State they are allocated among the schools by panels of student aid officers who are convened by the OE regional office to review school applications for financial aid. Once a school's share is determined, the student aid officer at that school has considerable flexibility in awarding aid to students according to need. The officer is able to "package" the Federal aid to provide sizeable assistance to individual students. For example, one student might receive:

Supplemental	\$1,000
Work Study (job)	700
Direct Loan	<u>1,000</u>
	\$2,700

State Student Incentive Grants

- 1972 Amendments
- Direct student assistance, run by the States, and Federal/State match of 50/50.

- Grants awarded on the basis of need.
- 1976 appropriation of \$44 million will support four classes of undergraduate students totalling 176,000 recipients.

Programs Included in Proposed Reductions to Resist Likely Congressional Increases
for Certain Education Programs

		Base		1977		1978		1979	
		<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Resist likely congressional increases for Education for the Handicapped and maintain the Administration's current request level.	1977	326	269			-90	-11	-90	-58
	1978	90	294						
	1979	90	140						
Do not continue 1976 appropriation increases for Head Start.	1977	484	475			-20	-20	-20	-20
	1978	484	478						
	1979	484	478						
Do not provide for congressional increases for innovative and experimental programs.	1977	74	41			-2	-5	-7	-5
	1978	74	61						
	1979	74	69						
Do not continue increases in Office of Education salaries and expenses likely to be provided in the 1976 supplemental.	1977	117	115			-2	-2	-2	-2
	1978	117	117						
	1979	117	117						
Request congressional increases for the TRIO program.	1977	70	57			-10	-8	-10	-10
	1978	70	68						
	1979	70	70						
Resist congressional increases for Education for the Disadvantaged and provide only for the 1977 requested level prior to fold into the block grant (\$1.9 billion).	1977	2,050	1,929			-150	-108	-150	-136
	1978	2,050	2,010						
	1979	2,050	2,037						

		Base		1977		1978		1979	
		<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Resist likely congressional increases for Indian Education.	1977	57	48			-15	-15	-15	-15
	1978	57	56						
	1979	57	55						
Resist likely congressional increases for Vocational Education and maintain the Administration's current request level.	1977	1,176	777 a/			-30	-14	-30	-26
	1978	30	681						
	1979	30	323						
Resist likely congressional increases for Emergency School Assistance.	1977	250	222			-3	-3	-3	-3
	1978	250	243						
	1979	250	248						
Resist likely congressional increases for Impact Aid and maintain the Administration's current request level.	1977	694	716			-418	-370	-466	-437
	1978	743	736						
	1979	791	767						
Resist any likely congressional increases in Elementary and Secondary Education.	1977	191	159			-49	-35	-49	-45
	1978	191	180						
	1979	191	185						
Do not budget for congressional increases in Innovation Consolidation Title IV, ESEA.	1977	185	181			-12	-8	-12	-11
	1978	185	183						
	1979	185	184						
Do not provide for probable congressional increases for Library programs.	1977	218	166			-19	-3	-19	-13
	1978	81	165						
	1979	81	123						

a/ Includes double appropriation to advance fund.

Education Programs Not Forward Funded
(Millions of \$)

<u>Program</u>	<u>1976 Appropriation</u>
Impact Aid	680
Student Loan Insurance Fund	202
Subsidized Insured Loans	452
Loans to Institutions (NDSL)	2
Aid to Land Grant Colleges	12
Higher Education Facilities Loans	3
Education Activities Overseas	2
Salaries and Expenses	107
Teacher Corps	38
Public Library Programs	52
National Institute of Education	70
Assistant Secretary for Education	33
Special Institutions	142
Child Development	484
Total Programs Not Forward Funded	2,279
Total Education Programs Forward Funded	5,742
Total 1976 Appropriation for Education Programs	8,021

1978 Preview
 Department of HEW/Branches
 Major Areas Where No Reduction Proposed
 (millions of \$)

Attachment C

<u>Program</u>	<u>Base Estimate</u>					
	<u>1977</u>		<u>1978</u>		<u>1979</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Assistant Secretary for Education	33	32	33	33	33	33
Student Loan Insurance Fund	--	91	100	100	150	150
Higher Education Facilities Loan	3	13	4	8	4	6
Education Development	--	4	--	1	--	--
Education Overseas	2	2	2	2	2	2
National Institute of Education	90	88	90	90	90	90
Developing Institutions	110	81	110	94	110	99
State Student Incentive Grants	44	32	44	41	44	43
Insured Loans	400	470	410	416	410	428
Child Abuse	19	16	19	16	19	16
Construction (Higher Ed.)	--	50	--	43	29	43

No Total

Summary Tabulation
Budget Authority

Program	1976	1977		1978			1979			
	Current Estimate	Current Policy	Poten. Level	Low Option	Current Policy	Poten. Level	Low Option	Current Policy	Poten. Level	Low Option
Block Grants	--	3,300	--	--	3,500	3,500	3,300	3,700	3,700	3,300
Elementary and Secondary	2,401	141	2,426	2,426	129	353	117	111	353	97
Indian Education	57	42	57	57	42	57	42	42	57	42
Impact Aid	680	325	694	694	325	743	325	325	791	325
Emergency School Aid	242	250	253	253	250	253	250	250	253	250
Education of the Handicapped	226	-0-	326	326	--	90	--	--	90	--
Vocational and Adult Education	673	539	1,176	1,176	--	30	--	--	30	--
Higher Education	2,963	2,273	2,595	2,595	2,283	2,605	2,267	2,312	2,634	2,296
Library Resources	71	62	218	218	62	81	--	62	81	--
Educational Development	--	--	--	--	--	--	--	--	--	--
Innovative and Experimental	37	67	74	74	67	74	67	67	74	67
Educational Activities Overseas	2	2	2	2	2	2	2	2	2	2
Salaries and Expenses	107	115	117	117	115	117	115	115	117	115
Student Loan Insurance Fund	202	--	--	--	100	100	100	150	150	150
Higher Education Facilities Loan Insurance Fund	3	3	3	3	4	4	4	4	4	4
National Institute of Education	70	90	90	90	90	90	90	90	90	90
Assistant Secretary of Education	33	33	33	33	33	33	33	33	33	33
Special Institutions	123	142	142	142	140	140	136	124	124	120
Child Development	495	484	484	484	484	484	464	484	484	464
Total	8,385	7,870	8,693	8,693	7,627	8,758	7,314	7,871	9,068	7,356