

**GAO**

**Testimony**

Before the Subcommittee on Labor, Health and Human  
Services, Education and Related Agencies  
Committee on Appropriations  
House of Representatives

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**DEPARTMENT OF  
EDUCATION**

**Opportunities to Realize  
Savings**

Statement of Linda G. Morra, Director  
Education and Employment Issues  
Health, Education, and Human Services Division



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Mr. Chairman and Members of the Subcommittee

We are pleased to be here today to present information on the U.S. Department of Education that we believe will assist you as this Subcommittee considers proposed budget reductions and rescissions.

To put Education's fiscal year 1995 funding and program numbers in perspective, the Department administers about 240 programs with a budget totaling \$33.7 billion--\$25.1 billion in discretionary funds and \$8.6 billion in mandatory funds. This represents an increase of \$6.7 billion over the previous year's appropriations.

Over the years, our office has reviewed many of Education's programs, and we believe this work permits us to identify areas where this Subcommittee may look for budgetary savings. Although we generally do not highlight potential specific budgetary savings nor provide an exhaustive list of areas for budgetary review, we believe that the programs we identify provide the Subcommittee with the type of information that can facilitate the important but very difficult task at hand.

In today's testimony, I will discuss (1) the need to reexamine the programs previously suggested by Education for elimination because they duplicate other programs, their purposes are already achieved, or they are more appropriately funded through nonfederal resources; (2) potential funding reduction opportunities for congressional consideration in higher education programs; (3) Department programs related to employment training that overlap with each other and other programs outside the Department; and (4) a means to reduce the negative impact of any Title I or other formula grant funding reductions.

#### **BACKGROUND**

In the United States, elementary and secondary education was an estimated \$295.2 billion cooperative enterprise of local, state, and federal governments in school year 1993-94. Federal departments and agencies contributed \$16.8 billion to this enterprise, accounting for 5.7 percent of the total expenditures. While the federal government's contribution for elementary and secondary education is relatively small, the Department of Education has a strong role to play in working with states and localities to improve the nation's education system as a whole and in ensuring that all children will benefit from these improvements. The federal government also played a major role in supporting higher education institutions by contributing \$24.6 billion (or 12.4 percent) of the \$198.1 billion expended on postsecondary education programs and activities in school year 1993-94.

In its fiscal year 1995 budget proposal, Education sought elimination of 33 programs that were appropriated \$639 million in fiscal year 1994. In its fiscal year 1995 appropriations, the Congress decided to save about \$81 million by not funding 13

Education programs; 10 were on the list of programs that Education sought to eliminate.

**POTENTIAL CANDIDATES FOR  
PROGRAM TERMINATION**

Twenty-one of the 23 programs proposed for termination by Education that were not eliminated by the Congress should be reconsidered for termination. Education sought to eliminate these programs because they were duplicative, their purposes were already achieved, or they would be more appropriately funded through nonfederal resources. According to Education, termination of these programs would be consistent with the recommendations of the National Performance Review. Our office has performed no work to substantiate or refute Education's claims about these programs.

These programs include the Perkins Capital Contributions program, the State Student Incentive Grants program, the Consumer and Homemaker Education program, the Dropout Prevention Demonstrations program, and several library programs. For fiscal year 1995, these 21 programs were appropriated \$418 million. (See app. I.) The vast majority of these funds have not yet been obligated.

In addition to these 21 programs, 2 other programs--the Impact Aid 3(b) program (funded at \$123.1 million in fiscal year 1994) and the Immigrant Education program (funded at \$39 million in fiscal year 1994)--were also included in Education's list of proposed programs to terminate. These 2 programs warrant additional comment.

In our view, that portion of the current Impact Aid 3(b) basic support payments that are provided to help finance the education of children who live on or whose parents work on federal property (known as "b students" before the 1994 reauthorization of the Elementary and Secondary Education Act) should be reviewed. The Department has advocated termination of support for b students in the past to remedy program equity problems. Education is currently unable to provide us with an estimate of how much of its fiscal year 1995 funding for the basic support programs--\$631.7 million--goes to former b students.

On the other hand, our work supports maintaining sufficient funding for Education's Immigrant Education program. In this regard, we noted that fiscal year 1995 funding for this program increased to \$50 million from nearly \$39 million last year. In work done before the latest reauthorization of this program, we found that immigrant students can pose significant educational challenges, especially in districts with high numbers of such students. Increasingly, our nation's ability to meet its educational goals depends on its ability to educate these children.

**DIFFICULT CHOICES, BUT FUNDING REDUCTION OPPORTUNITIES MAY EXIST IN HIGHER EDUCATION**

Possible funding reduction opportunities may exist in higher education programs. For fiscal year 1995, about 50 percent of Education's appropriations support students attending postsecondary education institutions. The largest programs provide federally insured loans and Pell grants for students, but a number of smaller programs exist.

In researching Education's higher education programs, we identified a series of funding reduction options that the Congress may want to consider. Some of these items are new, others have been discussed before but were not acted upon because of their potential adverse effect on students. However, now may be a more opportune time to consider some of these options.

**The Federal Family Education Loan and Direct Student Loan Programs**

The Federal Family Education Loan (FFEL) and Federal Direct Student Loan (FDSL) programs compose the largest source of federal aid to postsecondary students. For fiscal year 1995, \$10.7 billion was appropriated for these two programs. Through the FFEL program, private lenders make, service, and collect loans, and loans are guaranteed against default by state-designated agencies, with final insurance for borrower nonpayment being the government's responsibility. Direct loans, through the new FDSL program started in July 1994, are made by schools on behalf of the government.

We have identified several options that could achieve cost reductions over the next 5 years. However, they may have some adverse impact on students' access to postsecondary education--a principal objective of the Higher Education Act of 1965, as amended.

Options we developed for consideration in reducing FFEL and FDSL include eliminating or cutting the in-school interest subsidy for students, limiting in-school interest benefits to the most needy students who are also eligible for Pell grants, and eliminating administrative cost payments to guaranty agencies. It should be clear, however, that limiting or eliminating the interest subsidy for students could increase their out-of-pocket costs of education. (See app. II.)

**The Federal Pell Grant Program**

The Pell grant program was appropriated \$6.2 billion in fiscal year 1995. Pell grants, the largest federal grant-in-aid program for postsecondary education students, are awarded to eligible students based on their financial need. In our September 28, 1994 letter to the Subcommittee's former Acting Chairman, we (1)

identified patterns in Education's funding of Pell grants and (2) estimated the incremental budgetary cost of various features of the Pell grant program.

Based on this work, we developed options to reduce the impact on the budget of the Pell grant program, although we caution again that these options may have some adverse impact on students' access to postsecondary education. These options include reducing the maximum annual Pell grant to each student by \$100 and eliminating grants to part-time students. (See app. III.)

#### Funding Programs That Could Be Consolidated

Although the student loan and Pell grant programs provide the majority of federal financial aid to students for postsecondary education, another 22 smaller programs are targeted to specific segments of the school population. These programs were collectively funded at \$1.1 billion for fiscal year 1995. In turn, the programs fund remedial and support services for prospective students from disadvantaged families, programs to enhance the labor pool in designated specialties, grants to students for volunteer activities, and grants to women and minorities underrepresented in graduate education. (See app. IV.)

In general, the small, specifically targeted programs are costly to implement and oversee, and evaluating their effectiveness is difficult. We categorized these programs into four groups to illustrate their number and similarities. Nine programs provide assistance for minority and disadvantaged students, 9 programs help attract students to specific professions, 2 programs are related to community service activities, and 2 programs are related to the quality of postsecondary education.

These programs, as well as several others, may be considered candidates for consolidation. Consolidation could reduce total administrative costs. Such consolidation could be with other larger programs or among themselves. For example, programs directed to attracting minority and disadvantaged students could be consolidated into one program. Or a certain amount of funds could be provided to states through a single grant, in lieu of several smaller grants, to cover some or all of the purposes of several small grant programs.

Another more radical option would be to consolidate all of the various federal programs providing assistance to postsecondary education students into the student loan and Pell grant programs. In this manner, program administrative costs could be reduced and Education could better focus its management resources on implementing and overseeing these programs.

**SIMILAR EMPLOYMENT  
TRAINING PROGRAMS EXIST**

Additional budgetary savings are possible in Education's employment training programs. Education administers 61 of the 163 federally funded employment-training-related programs. These 61 programs were appropriated \$9 billion for fiscal year 1995.

These programs frequently target the same clients, share the same goals, and provide similar services, but maintain separate administrative bureaucracies at headquarters and regional locations. For example, the Vocational Education Basic Grant program is one of nine federal programs administered by the Departments of Education, Labor, Health and Human Services, Agriculture, and Housing and Urban Development that target services to the economically disadvantaged. An AFDC recipient may receive support services for child care from the Department of Health and Human Services' JOBS program, while receiving vocational training from Labor's JTPA program or Education's Vocational Education Basic Grant program.

Potential overlap also exists among Education's own programs. For example, Adult Education State Administered Basic Grant program (\$252 million) and Even Start-State Educational Agencies (\$99 million) are both Education programs that focus on literacy.

**REDUCING NEGATIVE IMPACT OF  
FORMULA GRANT FUNDING REDUCTIONS**

To the extent that reductions in Education formula grant programs--such as the Title I compensatory education program--are necessary, the Congress could consider ways to allocate reduced funding levels with the least negative impact on areas with the greatest need. Such an approach could be used to allocate Title I basic grant funds. For fiscal year 1995, the Title I basic grants program appropriation was \$6.0 billion. Title I grants to local education agencies represent the largest federal elementary and secondary education program.

One way to accomplish the goal of reducing funding with the least negative impact on areas with the greatest need would be to apply an absorption factor. For instance, rather than counting all poor children in the area, the count could include only that number that exceeded a poverty rate of 2 percent. A 2-percent absorption factor was proposed by the Reagan administration and considered by the Congress during program reauthorization in the 1980s.

While all school districts receiving Title I funds would be affected by lower program appropriations levels, the high-poverty areas with the greatest concentrations of disadvantaged children would be affected the least. Education could analyze existing data to determine the impact that an absorption factor would have on

individual school districts if it was used in the Title I grant allocation process.

### **CONCLUSION**

Reducing the level of funding for elementary and secondary education programs is difficult because the number of disadvantaged children needing additional educational assistance continues to grow. Ignoring these demands now may cause greater problems later as needy children face a potential future of joblessness and lower incomes. In addition, annual increases in higher education costs mean that individuals continue to rely more and more on federal grants and loans to finance college expenses. Addressing these types of demands during a time of budget austerity is a difficult task that challenges lawmakers and school officials to make every dollar count. Nevertheless, we have identified a number of programs where a reduction could be considered.

As the Subcommittee continues to seek areas for savings, we are committed to assisting you in any way we can.

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Mr. Chairman, this concludes my testimony. I will be happy to answer any questions that you or members of the Subcommittee might have.

Contributors to the preparation of this testimony were Susie Anschell, Joseph J. Eglin, Charles M. Novak, Benjamin P. Pfeiffer, Ellen K. Schwartz, and Fred E. Yohey, Jr.



PROGRAMS PROPOSED FOR BUT NOT ELIMINATED  
FROM THE FISCAL YEAR 1995 DEPARTMENT OF EDUCATION BUDGET

Program	Appropriations (in thousands)
Perkins Capital Construction	\$158,000
State Student Incentive Grants	63,375
Consumer and Homemaking Education	34,409
Dropout Prevention Demonstrations	28,000
Public Library Construction	17,792
Impact Aid Section 2	16,293
Law School Clinical Experience	14,920
Education for Native Hawaiians	12,000
Foreign Language Assistance	10,912
Community-Based Organizations	9,479
Library Literacy Programs	8,026
Cooperative Education	6,927
Research and Demonstrations	6,500
Law-Related Education	5,899
Library Education and Training	4,916
Civic Education	4,463
Ellender Fellowships	4,185
Dwight D. Eisenhower Leadership Program	4,000
National Writing Project	3,212
National Early Intervention Scholarships and Partnerships	3,108
Teacher Corps	1,875
<b>Total</b>	<b>\$418,291</b>

OPTIONS FOR REDUCING FUNDING FOR STUDENT LOANS

Eliminate interest benefits for subsidized Stafford loans and require students to accrue interest while in school.
Cut interest benefits for subsidized Stafford loans in half and require students to accrue the other half.
Limit Stafford interest benefits to students eligible for Pell grants.
Reduce in-school and grace period interest rate paid by the federal government to lenders on borrowers' behalf from 2.5 percent to 1.5 percent over the T-bill interest rate.
Set FFEL interest subsidy rates through competitive bid rather than through federal legislation.
Eliminate private for-profit institutions from eligibility for FFEL and FDSL.
Require full implementation of FDSL by academic year 1995-96.
Eliminate federal payment to guaranty agencies for administrative costs.

OPTIONS FOR REDUCING FUNDING FOR PELL GRANTS

Reduce the maximum grant amount by \$100.
Eliminate grants to students in their first year of postsecondary study.
Eliminate grants to students in their fifth or later year of undergraduate study.
Eliminate grants to proprietary school students.
Eliminate grants to part-time students.
Eliminate grants to less-than-half-time students.
Eliminate grants to students without a high school diploma, general education development certificate, or equivalent.
Include the value of the family residence in computing the expected family contribution.
Eliminate grants to students at schools with loan default rates of 25 percent or more for the 3 most recent years.
Eliminate aid administrators' authority to use professional judgment in computing the amount of a student's aid.

PROGRAMS THAT ARE CANDIDATES FOR CONSOLIDATION

Program	1995 Appropriation (in millions)	Description
Programs to encourage education of minorities and disadvantaged		
TRIO programs	\$463.0	Support to minorities and disadvantaged students for completion of high school, college, and preparation for graduate study.
Historically Black Colleges Capital Financing Program	0.3	Administration of federal guarantees of facility repair and construction.
College Housing and Academic Facilities	6.7	Facilities construction and renovation: existing loans only. Support for new loans ended in 1994.
Aid for Institutional Development	229.7	Strengthen fiscal management and academic programs of financially needy postsecondary institutions serving disadvantaged.
Harris Fellowships	20.2	Grants for women and minorities underrepresented in graduate education.
Faculty Development Fellowships	3.7	Second-year grants for underrepresented students in graduate or professional education.
Legal Training for the Disadvantaged	3.0	Pre-law and law school stipends to disadvantaged students.
Howard University	205.5	Provides 55 percent of Howard's expenses, serving as a major avenue of postsecondary access for minority and disadvantaged students.

Bethune-Cookman College	4.0	Funds for fine arts center at this historically black college in Florida.
Subtotal	\$936.1	
Programs to attract students to specific professions, jobs, or leadership roles		
Minority Teacher Recruitment	\$2.5	Grants to institutions for programs to encourage minorities' becoming teachers.
Minority Science Improvement	5.8	Grants to institutions for programs to encourage minorities' becoming scientists.
International Education and Foreign Language Studies	58.1	Support for foreign language and area study programs.
Institute for International Public Policy	1.0	Access for minorities and disadvantaged to international studies.
National Science Scholars	6.4	Awards recognizing high school excellence in science, math, and engineering.
Douglas Teacher Scholarships	14.6	Awards recognizing high school excellence and encouraging careers in K-12 teaching.
Javits Fellowships	7.8	Fellowships to students talented in the arts, humanities and social sciences.
Graduate Assistance in Areas of National Need	27.3	For grants to graduate students in such fields as science, math, and foreign languages.

School, College and University Partnerships	3.9	Continuation awards for partnerships with businesses and other organizations to improve high school students' job preparedness.
Subtotal	127.4	
Programs to encourage public service		
Innovative Projects for Community Service	1.4	Grants to support student volunteer activities.
Urban Community Service	13.0	Support for projects to address social and economic needs to urban communities.
Subtotal	14.4	
Programs to achieve quality postsecondary education		
State Postsecondary Review Program	20.0	Ensure schools' educational quality, financial responsibility, and administrative capability.
Fund for the Improvement of Postsecondary Education	17.5	Support for projects that enhance postsecondary quality and cost effectiveness.
Subtotal	37.5	
<b>Total</b>	<b>\$1,116.4</b>	

## RELATED GAO PRODUCTS

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Early Childhood Programs: Multiple Programs and Overlapping Target Groups (GAO/HEHS-95-4FS, Oct. 31, 1994).

Education Finance: Extent of Federal Funding in State Education Agencies (GAO/HEHS-95-3, Oct. 14, 1994).

Pell Grant Costs (GAO/HEHS-94-215R, Sept. 28, 1994).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-04-131, June 30, 1994).

Early Childhood Programs: Many Poor Children and Strained Resources Challenge Head Start (GAO/HEHS-94-169BR, May 17, 1994).

Immigrant Education: Federal Funding Has Not Kept Pace With Student Increases (GAO/T-HEHS-94-146, Apr. 14, 1994).

School-Aged Children: Poverty and Diversity Challenge Schools Nationwide (GAO/T-HEHS-94-125, Mar. 16, 1994).

Limited English Proficiency: A Growing and Costly Educational Challenge Facing Many School Districts (GAO/HEHS-94-38, Jan. 28, 1994).

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28, Jan. 21, 1994).

Student Financial Aid Programs: Pell Grant Program Abuse (GAO/T-OSI-94-8, Oct. 27, 1993).

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47, May 28, 1993).

Compensatory Education: Additional Funds Help More Private School Students Receive Chapter 1 Services (GAO/HRD-93-65, Feb. 26, 1993).

Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, July 28, 1992).

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