



777 6th Street NW  
Suite 650  
Washington DC 20001  
Tel: (202) 618-3900  
Fax: (202) 478-1804  
[www.pennhillgroup.com](http://www.pennhillgroup.com)

## Analysis of the President's FY 2014 Budget Request for the U.S. Department of Education

The Obama Administration submitted the FY 2014 budget request to Congress on April 10, 2013. Below is a summary and analysis of the portion of the budget request pertaining to the U.S. Department of Education (ED).

### Top Line Funding and Major Aspects of the Budget Request

The budget request proposes \$71.2 billion in discretionary spending for ED, which is an increase of \$3.1 billion or 4.5 percent over the fiscal year 2012 level<sup>1</sup>. Of this amount, \$22.8 billion alone is designed to fund the Pell Grant program and its maximum grant of \$5,785 for the 2014-2015 award year. This continues to be the largest single discretionary program (not counting its additional mandatory funding) at the Department.

### Department of Education Discretionary Appropriations (in billions of dollars)

	FY 2012 Enacted Level	FY 2014 Request	Difference
Total	\$68.1	\$71.2	+ \$3.1
Discretionary (without Pell)	\$45.3	\$48.4	+ \$3.1
Pell	\$22.8	\$22.8	\$0.0

Other major aspects of the President's budget request include:

- \$75 billion over 10 years for a new Preschool for All initiative aimed at assisting states in providing preschool for 4-year-olds from low- and moderate-income families. There is also a companion \$750 million Preschool Development Grants program designed to build state capacity to implement the Preschool for All initiative. In addition, these initiatives are coupled with funding through the Department of Health and Human Services for voluntary home visits and improved care for infants and toddlers.
- \$300 million for a new High School Redesign program.
- Adopting a variable interest rate structure for subsidized and unsubsidized Stafford loans and PLUS loans. The rate structure is paired with an expansion of the Administration's Pay as You Earn plan, allowing anyone with a Federal loan (not just new loans) to qualify for caps on loan payments based on discretionary income and forgiveness of

<sup>1</sup>It is important to note that the requested funding levels in the 2014 budget are compared to 2012 funding levels. Budget documents state that 2013 funding levels were not finalized at the time the budget documents were prepared, making the comparison to 2012 levels necessary. A \$48.4 billion bottom line for discretionary funding (not counting Pell Grants) would be approximately \$5.5 billion over the final FY 2013 level.

remaining loan balances after 20 years. The rate structure would set rates once a year, and a loan would have a fixed rate for the life of the loan. There would be no cap on the interest rate.

- Maintains past Obama Administration priorities of Race to the Top (RTT) and Investing in Innovation (i3). Specifically the Budget calls for a \$1 billion new College Affordability and Completion Race to the Top program, and funding \$215 million for the i3 program, up to \$64 million of which could be used for an ARPA-ED initiative.
- \$5 billion in one-time mandatory funding for the RESPECT project (proposed legislation). This program would provide grants to states and consortia of districts to conduct reform of teacher preparation, strengthen teacher and principal evaluation, and improve conditions in schools that improve teaching.
- Several new initiatives related to school safety and positive learning environments. Specifically, the request calls for \$50 million in school climate transformation grants through multi-tiered decision-making frameworks, \$30 million in one-time grants to SEAs to help school districts improve emergency management planning, and \$25 million to help school districts support post trauma mental health services, conflict resolution programs, and other means to prevent violence.<sup>2</sup>
- \$265 million in new STEM Funding for STEM Innovation Networks, STEM Teacher Pathways, and a STEM Master Teacher Corps. These initiatives are part of a larger government wide effort to eliminate or consolidate other STEM-related programs across various agencies.
- \$260 million for a First in the World Fund, an i3-like program for higher education with a focus on college completion, creating validation systems identifying competencies necessary for high-need fields, and pay-for-success projects aimed at providers producing free degree programs for students tied to these validation systems.
- An increase of \$240 million for the Promise Neighborhoods initiative.
- As with the FY 2013 request, the FY 2014 budget request calls for major consolidation and/or elimination of programs across several areas of ED, but mostly under the Elementary and Secondary Education Act (ESEA).

## **Major Funding Increases and Decreases, and Discussion of Policy initiatives**

### **PreK, Elementary and Secondary Education**

#### *Preschool For All*

The 2014 budget request includes \$1.3 billion as part of a 10-year \$75 billion mandatory program supporting states providing preschool to four-year-olds from low- and moderate-income families. The budget documents describe this as an “incentive for States to provide universal access.”

---

<sup>2</sup> The \$50, \$30 and \$25 million grant programs do not appear in the Department of Education’s budget tables that accompany the request. This leads us to believe that the programs would likely be administered by another agency.

Elements would include:

- mandatory BA's for teachers;
- professional development for teachers;
- low class sizes;
- full-day programs;
- alignment with state early learning standards;
- salaries that are comparable to those for K-12 teaching staff;
- ongoing evaluation; and
- on-site comprehensive services.

States would be required to provide matching funds. States already providing universal preschool to four-year-olds from families with incomes below 200 percent of the poverty line would be able to use funds for full-day kindergarten, or (if that is already provided), preschool for three-year-olds. Federal dollars would cover a significant share of the program costs initially, but would ramp down over time.

#### *Preschool Development Grants*

\$750 million is provided in the request for grants to help states prepare for the Preschool for All initiative. Specifically, grants would address facility creation, workforce development, quality improvements, and scale-up of proven models. The budget documents cite states with small or no preschool programs as eligible to build capacity and those states with more robust preschool efforts presently as eligible to use funds to improve quality.

#### *Investing in Innovation*

The request calls for \$215 million for i3, with up to \$64 million available to fund the Advanced Research Projects Agency-Education (ARPA-ED) initiative that has been proposed in the last few budget requests.

#### *STEM*

The request proposes several new STEM initiatives totaling \$265 million, and a new authority modeled off the current ED Mathematics and Science Partnerships program. These STEM initiatives are described as part of a government-wide realignment that would consolidate or restructure 90 STEM-related programs across 11 agencies. The new initiatives include:

- STEM Innovation Networks (\$150 million) – competitive awards to institutions of higher education, nonprofits, and others to replicate evidence-based practices across a regional network of participating schools. Networks would be focused on utilizing other STEM assets in their region, including research facilities and other Federal STEM resources.
- STEM Teacher Pathways (\$80 million) – competitive grants aimed at producing 100,000 new STEM teachers over the next 10 years.
- STEM Master Teacher Corps – recognizing and rewarding the nation's most talented STEM teachers and building local and regional communities of practice.

Additionally, the request creates a new Effective Teaching and Learning program that would replace the existing Mathematics and Science Partnerships program and make awards to states or consortia of states and other entities to implement a comprehensive strategy for STEM instruction to students. High-need schools could be targeted for assistance through a 20 percent reservation of grant funds. This initiative has been part of the Administration's ESEA reauthorization blueprint and has been in the budget the last few years.

### *ESEA Reauthorization*

The budget request bases its program structure and funding requests on the Administration's [reauthorization blueprint](#) that was released in 2010 and it calls for much of the same reauthorization focus as in previous budget requests by the Obama Administration. As part of the reauthorized Title I, states and school districts would be required to implement one of four rigorous school turnaround models in the state's bottom five percent of schools as well as "research-based locally determined strategies" in schools that are between the fifth and tenth percentiles in performance.

The request further emphasizes equitable distribution of teachers and leaders based on definitions of effectiveness that would be developed by states. School districts would be required to use up to 20 percent of their Title I funds to implement school improvement strategies and carry out strategies designed to ensure equitable distribution of teachers and leaders. The budget request also includes a call for strengthening Title I's "comparability" requirements to ensure a more equitable distribution of state and local funding between high-poverty and low-poverty schools in a district. Lastly, the Department calls for additional evaluation funding through reserving 0.5 percent in a number of accounts (not just Title I) for evaluation purposes.

### *School Turnaround Grants (also known as School Improvement Grants (SIG))*

The request would provide a \$125 million increase under the SIG authority for the purpose of funding new competitive grants to build school district capacity to support school turnaround efforts. \$25 million of these funds could be used to expand the School Turnaround AmeriCorps initiative at the Corporation for National and Community Service.

### *High School Redesign*

As discussed in the State of the Union speech, the request proposes a \$300 million high school redesign program. The program would provide competitive grants to LEAs in partnership with institutions of higher education and employers. Funded projects would leverage existing resources to engage students in personalized learning opportunities, provide rigorous coursework (courses that provide postsecondary credit to high school students), help students learn career-related competencies and employability and technical skills, and offer career and college exploration.

### *Teacher and Principal Quality*

The FY 2014 budget request triples funding for the school leadership program, and renews a call to consolidate the Teacher Quality Partnership, and Transition to Teaching programs into a new version of the Teacher Quality state grants program (ESEA, Title II, Part A), renaming it the Effective Teachers and Leaders State Grants program. The same level of funding provided in FY 2012 is requested for this new Title II approach.

Under the new Title II construct, states would be required to develop definitions of effective and highly effective teachers and principals that would be used as part of teacher evaluation systems. In addition, 25 percent of the program's funding would be reserved at the Department level to conduct various efforts to improve the teaching profession, including activities in the areas of recruiting, training, and supporting effective teachers and school leaders; strengthening educator evaluation; and developing accountability systems for teacher preparation.

The request also includes \$400 million for a Teacher and Leader Innovation Fund – essentially the Administration's new version of the Teacher Incentive Fund.

### *Charter Schools*

As in past years, the 2013 budget request consolidates the Charter School program into a new Expanding Educational Options program. This new initiative would fund both charter schools and public school choice activities. Unlike past years, however, the Department proposes to increase funding to \$294.8 million for this new initiative compared to the \$255 million provided for the Charter School program in FY 2012. In addition, the Department states that it would only fund the charter school aspects of the proposed consolidation, allowing the \$40 million increase to go for replication and expansion of high-quality charter schools but not to other school choice initiatives.

### *21<sup>st</sup> Century Community Learning Centers*

The request increases funding for the 21<sup>st</sup> Century Community Learning Centers program by \$100 million (for a total of \$1.2517 billion) and maintains the focus of the Administration's reauthorization proposal by allowing funding for before- and after-school programs, summer enrichment programs, summer school programs, expanded learning time programs, and full-service community schools.

### *Other Programs*

Funding for the Comprehensive Centers, the English Language Learners formula program, Rural Education, Migrant Education, and Neglected and Delinquent are all level funded at FY 2012 enacted levels. The Arts Education program, as in past year, is eliminated in favor of a "Well-Rounded" Education program focused on improving instruction and learning in the arts, physical education, foreign languages, and other subjects.

As in the past few years, the Advanced Placement (AP) program is consolidated along with the High School Graduation Initiative into a College Pathways initiative. The request specifically highlights that the Department would be authorized to reserve funds to make grants to states to pay for the cost of test fees for AP and other similar assessments.

## **Higher Education (including Pell and Student Loan Programs)**

### *RTT – College Affordability and Completion*

The request calls for \$1 billion for RTT for a college affordability and completion competition. The request would fund up to 10 states to carry out projects that focus on several reforms, including sustaining state fiscal support, removing barriers that prevent innovative methods of student learning and new degree pathways, enhancing transparency designed to improve consumer choice, and supporting transferring between institutions of higher education.

### *First in the World (i3 for higher education)*

The request repeats the call for "First in the World," an i3-like program with a higher education focus that was first proposed in the FY 2013 request. In the FY 2014 request, \$260 million would support efforts targeted at college completion and creating validation systems identifying competencies necessary for high-need fields, as well as pay-for-success projects aimed at providers producing free degrees tied to these validation systems.

### *New Student Loan Interest Rate Structure and Expansion of Pay as You Earn*

Interest rates on subsidized student loans are scheduled to rise from 3.4 percent to 6.8 percent in July of this year. Congress and the Administration delayed the increase in these rates for one year last July. To respond to this increase, the request calls for a variable interest rate structure for subsidized and unsubsidized Stafford loans and PLUS loans. The rate structure would set

rates once a year and a loan would have a fixed rate for the life of the loan. There would be no cap on the interest rate, and the existing cap on consolidation loans of 8.25 percent would be eliminated. The interest rate structure would be based on the 10-year Treasury note with additions of:

- 0.93 percent for subsidized Stafford loans;
- 2.93 percent for unsubsidized Stafford loans; and
- 3.93 percent for PLUS loans.

The rate structure is paired with an expansion of the Administration's Pay as You Earn Plan. Under the request, anyone with any Federal loan (that isn't in default) would be eligible. Previously, borrowers were only eligible for Pay as You Earn if they had no loans as of 2007 and had received a Direct Loan after 2011. Under the request, starting in July 2014, everyone with any Federal student loan balance would be allowed to participate in Pay as You Earn. Student loan payments would be capped at 10 percent of a borrower's prior-year discretionary income and forgiveness of remaining loan balances would take place after 20 years.

#### *Community College Initiative*

The request includes a new initiative, also proposed in the FY 2013 request, jointly administered by ED and the Department of Labor to improve access to job training and increase community college partnerships with business. This initiative would be funded at \$8 billion over three years.

#### *Campus-Based Aid Changes*

The request level funds the Supplemental Educational Opportunity Grant (SEOG) program and increases Work Study funding by \$150 million compared to the FY 2012 enacted level. The Administration proposes to change the formula that allocates SEOG and Work Study funding to institutions of higher education (IHEs) in order to provide larger amounts to IHEs that hold down tuition and costs and graduate high numbers of Pell-eligible students.

The Administration also proposes a new Perkins Loan program similar to its proposal in past budget requests. The existing Perkins Loan program is scheduled to expire in 2014. The request estimates that this new program will provide \$8.5 billion in new loan volume annually. Loans would be serviced by ED and not colleges. The request claims this change would produce savings that would be used to maintain the funding in the Pell program and fund the maximum Pell Grant.

#### *Pell*

The budget request maintains a \$22.8 billion discretionary level of funding, the same as the FY 2012 enacted level. The maximum Pell Grant is scheduled to increase to \$5,785 for the 2014-2015 award year. The Department projects that the request will provide 9.4 million students with Pell Grants.

The request notes that the Pell program is expected to encounter funding deficits in future award years and makes two changes to student loan programs to provide savings to fund Pell. With these two changes the request states that the Pell program will be fully funded through the 2015-2016 award year. The first change is the creation of the new Perkins Loan program as described under the Campus-Based Aid Changes section above. The second is a change in how guaranty agencies (GAs) are compensated when rehabilitating a loan. Under the request, if a GA is unable to find a private buyer for a rehabilitated loan, it would be required to assign it to ED. In addition, the request calls for a reduction in the fee that GAs can charge borrowers who have rehabilitated their loans from 18.5 percent to 16 percent. The request estimates this



will save \$3.7 billion over 10 years and calls for these savings used for future Pell funding shortfalls.

#### *Presidential Teaching Fellows Program*

The TEACH Grant program is proposed to be replaced in the budget request by a Presidential Teaching Fellows program (PTF). This proposal was first made in the FY 2012 budget request. PTF, funded with mandatory spending, would provide grants to states to award scholarships of up to \$10,000 to individuals who attend high-performing teacher preparation programs and commit to teaching in a high-need school.

#### *HEA Program Evaluation and Dual Enrollment Demonstration*

The budget request provides \$67.6 million to support the collection and analysis of performance data and evaluation of Higher Education Act programs that don't have funding set-asides for this purpose. In addition, \$32 million of this amount would be reserved for demonstration and evaluation of dual enrollment programs with \$10 million in additional funding from Career and Technical Education National programs at the Department.

### **Special Education and Rehabilitative Services**

#### *IDEA*

The Administration's request level-funds the Part B, grants to states program, placing the federal share of funding for special education at approximately 15 percent. The budget request estimates that this would provide \$1,767 per child for an estimated 6.5 million students with disabilities. In addition, the budget request states that \$15 million of Part B funds would be reserved for technical assistance to improve state capacity to collect data under IDEA.

Part C (infants and toddlers) would receive a \$20 million increase compared to FY 2012. Part D programs under IDEA would be cut by \$1.4 million compared to FY 2012, with funding increasing for state personnel development grants and decreasing for personnel preparation grants. Parent Training and Information Centers would be level-funded compared to FY 2012.

#### *Vocational Rehabilitation*

Vocational Rehabilitation state grants receive a \$71.4 million increase under the budget request to meet the statutory requirement for an annual inflationary increase. In addition, Supported Employment State Grants and Migrant and Seasonal Farmworkers programs are eliminated as they were in the FY 2013 request.

#### *Assistive Technology*

These programs are funded at \$30.8 million, a decrease of \$2 million, with \$25.6 million for state grants, \$4.3 million for protection and advocacy, and \$1 million for technical assistance.

### **Career, Technical and Adult Education**

#### *Career and Technical Education*

The budget request calls for level funding for Career and Technical Education state grants and reiterates the Administration's support for its [reauthorization proposal](#) (announced in April 2012). As part of the request, \$10 million is targeted for Pay for Success projects.

### *Adult Education*

Adult Education state grants are level funded at \$595 million – the FY 2012 enacted level. A \$3 million increase in the national programs would support new awards to support reentry education models.

### **Research**

#### *IES*

The budget request increases research, development, and dissemination funding for IES by \$12.5 million, to \$202.3 million total. This is intended to permit IES to make new awards and support a new program focused on understanding strategies intended to support continuous improvement of educational systems. Special education research would receive an increase of \$10 million compared to FY 2012. NCES would receive \$14 million in additional funding to support state participation in the Program for International Student Assessment (PISA) and to begin collecting certain National Postsecondary Student Aid Survey data every two years.

Regional Educational Laboratories would maintain level funding of \$57.4 million, compared to FY 2012. The funding is intended to support the third year of the contracts with the Labs.

Statewide Data Systems would receive an additional \$47 million for a total of \$85 billion. The request states that up to \$25 million would be used for awards to public and private agencies to support activities to improve data coordination, quality, and use. \$36 million of the \$47 million increase would be used for new grants emphasizing early childhood data linkages and better use of data in analysis and policymaking, and \$10 million would be focused on improving information on students as they move from high school the college and the workforce.

### **NAEP/NAGB**

The budget request cuts NAEP and NAGB funding by \$5 million compared to the FY 2012. In the budget summary, the Department states that this reduced level of funding for NAEP is sufficient.