

MEMORANDUM

TO: Interested Parties
FROM: Senator Tom Harkin (D-IA)
RE: **Analysis of the U.S. House Budget Plan to Cut Student Financial Aid**
DATE: March 30, 2012

On Thursday, March 29, the U.S. House of Representatives passed a budget plan on a largely party line vote. The plan sharply reduces the federal government's investments in education and infrastructure – investments that are necessary to ensure our country remains competitive in the global economy and generates jobs in both the short and long term. The reductions in spending are largely offset by completely extending the Bush 2001 and 2003 tax breaks, which were targeted towards the very wealthy. Overall, this budget proposal is an unprecedented assault on middle class Americans who are already struggling to make ends meet.

Nearly two-thirds of cuts in the budget plan come from programs for lower-income and working American families and children.

The House budget plan would reduce the amount of funding for discretionary and non-Social Security and health mandatory spending – funding that pays for investments in our schools and transportation infrastructure, and provides basic services for low-income Americans, our seniors, and people with disabilities – to just 3.75 percent of GDP by 2050, even though these categories of spending have never fallen below 8 percent of GDP since World War II. Defense spending alone has not dropped below 3 percent of GDP during this time. Meanwhile, under the House plan millionaires will receive an average tax cut of over \$150,000.

The House Fiscal Year 2013 budget resolution walks away from the discretionary spending levels agreed to just last August as part of the Budget Control Act of 2011 and further reduces total discretionary spending by \$19 billion below the agreed-upon caps in Fiscal Year 2013 and \$93 billion in Fiscal Year 2014. The new cuts are targeted mostly at non-defense spending, while defense spending would be protected.

Below are some specific cuts that Iowa and the nation could face in the area of student financial aid if the proposed House budget were to be implemented. All figures assume that the cuts in the House budget would be applied proportionately to all non-defense discretionary spending.

- **Pell Grants:** The House budget could reduce funding for need-based grant aid that helps moderate- and low-income students attend and afford college. In Fiscal Year 2013, the cut to Pell Grants could eliminate all Pell Grant aid to 400,000 recipients and reduce the size of the award for the remaining 9.3 million students. The House budget would also eliminate a \$95 increase in the maximum Pell Grant award, from \$5,550 to \$5,645, which is scheduled to occur in Fiscal Year 2013.
- **Estimated Impact on Iowa:** Under the House budget, Pell Grant aid for students in Iowa could drop from an estimated \$867 million to \$790 million in Fiscal Year 2013, a cut of \$77 million. This cut could cause the average Iowa student's Pell Grant aid to drop from \$3,701 to \$3,503. Additionally, more than 10,400 Iowa students could lose their Pell Grant completely.

- **Additional Financial Aid Programs:** The House budget would also cut the Federal Work Study (FWS) and Supplemental Educational Opportunity Grant (SEOG) programs, both of which provide federal aid for students that must be matched by colleges and universities. In Fiscal Year 2013, the combined cuts to these programs could be \$92.4 million, with an additional cut of \$231.1 million in Fiscal Year 2014, for a total cut of \$323.5 million. In Fiscal Year 2012, 2.1 million students are receiving \$1.7 billion in federal aid through these programs. Under the House budget, 2 million students would receive \$1.6 billion in Fiscal Year 2013 and 1.7 million students would receive \$1.4 billion in Fiscal Year 2014. Overall, the cuts could eliminate 392,000 students from the programs.
 - **Estimated Impact on Iowa: During the 2012-2013 academic year, more than 44,400 students in Iowa are expected to receive \$28.8 million in aid from the Federal Work Study and Supplemental Educational Opportunity Grant programs. Under the House budget, that amount could drop by \$1.6 million, to \$27.2 million, for the 2013-2014 academic year and by \$5.4 million, to \$23.4 million, for the 2014-2015 academic year. In addition, 8,400 students could lose aid entirely.**

These financial aid programs not only provide access to higher education for needy students, but also reduce or eliminate their need to borrow student loans. This is especially important to Iowa students. Among recent college graduates, Iowa ranks 3rd in the country with the highest level of average debt at \$29,598 and 4th in the country with the highest proportion of students graduating with debt at 72 percent. With overall student loan debt hitting the \$1 trillion mark, now is not the time to ask low- and moderate-income students to take on more debt as they try to reach and stay in the middle class.

Today's greatest challenges are to create jobs, accelerate the recovery, and restore the middle class. That is what I hear from so many Iowans – and families all across the country know it, too. Their daily reality makes it clear that a slash-and-burn approach is not working.

The United States remains the wealthiest nation in history. The most dangerous deficit we face is not a deficit of dollars, but of vision – our failure to confront the economic challenges of our day with the boldness that earlier generations of Americans summoned in times of crisis.

Rather than a pessimistic budget, which says America can't afford to maintain and rebuild the middle class, I have an alternative vision for a better future. That is why this week I introduced the Rebuild America Act – an ambitious bill to modernize our nation's infrastructure, expand manufacturing, prepare our workers for jobs of the future, and strengthen the economic security of middle class families.

For my full statement on the Rebuild America Act and for more detail on the bill, go to <http://harkin.senate.gov/help/middleclass.cfm>.