



Capped Out

Low Spending Limits, Pell Grants, and the Future of Labor and Health and Human Services Appropriations

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For the past several years, Congress has pursued a budget-by-crisis model. The result has been last-minute deals full of draconian spending cuts that have slashed billions of dollars from important domestic policy programs.¹

To date, the Federal Pell Grant Program has been one of the few nondefense domestic programs to be largely protected from these budget cuts. As the nation's most expansive grant program for college, Pell Grants provide more than \$31 billion per year to help more than 8 million low-income students afford postsecondary education.² While Congress has faced funding shortfalls in the program over the past few years, it has preserved and increased the maximum award available.³

However, if Congress does not take action in the coming years, continued unnecessary austerity will force billions of dollars in cuts to either Pell Grants or other programs in the departments of Labor, Health and Human Services, and Education. Congress will be forced to choose between reducing much-needed dollars to help vulnerable students manage the ever-rising cost of college and cutting crucial parts of the social safety net, such as those related to health care or displaced workers. Moreover, the fiscal year 2016 budget resolution agreement and the U.S. House of Representatives appropriations bill for education suggest a desire to worsen the situation in the future.⁴

Both choices are simply unacceptable. The decisions set up by constrained spending caps represent short-term thinking that will harm long-term efforts to improve economic mobility and growth. In order to continue providing low-income students access to higher education, Congress must take two important steps. First, Congress must undo the sequestration-enforced spending caps so that federal investment can return to the higher levels previously agreed upon by Congress. Second, Congress must acknowledge that everything about the Pell Grant Program—how it is structured, how it is budgeted, and how its costs increase—make it fundamentally ill-suited to be maintained as a discretionary program. Pell Grants are much more like a mandatory program, and it is time for them to be treated that way.

The federal budgeting process

Understanding the interaction between Pell Grants, budget caps, and future spending cuts requires some quick background on the federal budgeting process. Each year, the House and Senate release separate budget resolutions that establish overall spending limits by broad categories. The two chambers then produce a conference agreement that reconciles differences and comes to consensus on binding budget caps for that year.⁵ That consensus document also sets out how much money each congressional committee can spend. The president cannot sign or veto the budget resolution.

When it comes time to produce appropriations bills, congressional committee members must figure out how to divide up their overall allocation among their 12 subcommittees. The dollar amount they pick for each subcommittee, which is known more formally as a 302(b) allocation, dictates the maximum amount of money that group can spend for the next fiscal year.⁶ Due to the small number of subcommittees, each of these 302(b) allocations sets the maximum spending amount for several federal agencies. For example, the U.S. Department of Education shares the same 302(b) allocation with the U.S. Department of Labor and the U.S. Department of Health and Human Services, along with some other smaller agencies.⁷

The federal budget process thus creates a series of cascading zero-sum games once the overall spending level is set. Different 302(b) allocations compete amongst each other for money; within the same spending cap, multiple agencies have to fight with each other for funding. This competition is further exacerbated because Congress tends to treat all discretionary spending as either defense or nondefense related. This automatically pits every nondefense program against the others for funds from the same pot.

The multiple rounds of forced austerity over the past several years have only made the budget situation tenser each year. In 2011, Congress passed and the president signed the Budget Control Act.⁸ That bill put to rest some of the ongoing fights over the country's debt ceiling, but it did so in exchange for strict caps on discretionary spending that started in fiscal year 2012 and continue through FY 2021.⁹ In addition, the Budget Control Act created a bipartisan Joint Select Committee on Deficit Reduction—more commonly known as the supercommittee.¹⁰ This group was tasked with finding an additional \$1.2 trillion in spending cuts.¹¹ To compel the supercommittee to establish consensus, the Budget Control Act included a punitive provision known as sequestration that would result in further automatic spending reductions—applied equally to both defense and nondefense spending—if an agreement was not reached by November 2011.¹² The idea was that sequestration would be so untenable that the supercommittee would never let it happen and would therefore reach agreement on the additional spending cuts.

The supercommittee, however, was unable to reach consensus. As a result, draconian sequestration cuts that were never intended to actually occur have been in place for the past several years. This further reduced spending caps that already substantially constrained government spending.¹³

Now, current House and Senate leadership are proposing to go even further. While the FY 2016 budget resolution uses the same sequestration-level caps for FY 2016, it proposes to drop the caps even further in future years, cutting them by another \$605 billion from FY 2017 through FY 2025.¹⁴ Those numbers are not binding for future years. However, since Congress must pass a budget resolution each year, the numbers nonetheless suggest a strong desire to pursue even greater spending reductions. If successful, these efforts will result in smaller 302(b) allocations and will further ratchet up competition between federal agencies for even scarcer dollars.

The Pell Grant cost structure

One problem with extremely low budgetary caps is that a variety of factors drive cost increases in federal programs. In most programs, the annual cost is determined by the amount that Congress decides to spend. For example, if Congress spends \$14.4 billion on grants to low-income students in under-resourced elementary and secondary schools, then that amounts to the program's full cost.¹⁵ The overall dollar figure does not vary based upon the number of recipients; Congress will never be faced with an unexpected funding spike.

The Pell Grant Program, however, is different. Because it is a student voucher, its costs are dictated by the number of annual Pell Grants recipients and the maximum award size. Pell Grants are also very different from other discretionary programs in that they are not allotted on a first-come, first-served basis or otherwise limited. Each year, Congress sets the grant's maximum award. Anyone who meets eligibility requirements is guaranteed to receive support, regardless of when they apply. And budget scoring rules rightfully do not allow Congress to intentionally spend less than what is necessary to provide awards at that stated maximum level.¹⁶ If more people apply than expected—resulting in costs higher than the allocated funds—the program's estimated cost will increase for the following year. This is exactly what happened during the Great Recession when the number of Pell Grant recipients increased by several million individuals, more than doubling the annual cost of the program.¹⁷

The Pell Grant Program is thus inherently unpredictable from a budgetary standpoint. Even if the maximum award is left unchanged, growth in the number of recipients might well increase the amount of money that has to be budgeted each year. If the number of eligible students does not decrease, the program's cost can only be reduced if Congress cuts the maximum award or changes eligibility requirements.

Because the Pell Grant's costs can rise even without policy changes, Congress will need to start appropriating increasingly larger sums of money in just a few years to reflect estimates of growth in the number of recipients and the expiration of mandatory funding for the program appropriated in the past. From FY 2018 to FY 2025, Congress will need to spend an estimated \$31.8 billion more than it currently spends just to keep Pell Grant program benefits level.¹⁸ And the increases grow over time, starting at an estimated \$2.3 billion in FY 2018 and eventually reaching \$5.6 billion in FY 2025.¹⁹

The problem is that these necessary Pell Grant funding increases will kick in at the same time that domestic nondefense discretionary caps are still being kept very low. The result is that Pell Grants will eat up a bigger share of the entire Labor, Health Human Services, Education, and Related Agencies, or LHHS, appropriations bill. In some years, the amount of additional money needed for Pell Grants could be equal to or greater than the entire increase available for the LHHS appropriations bill.

Additionally, this need for more Pell Grant funding at the expense of other programs would be coming on the heels of the FY 2016 House LHHS appropriations bill, which already proposes significant cuts to programs compared with the FY 2015 LHHS appropriations. These cuts include eliminating grants for preschool program development, a \$649 million funding reduction for the Centers for Medicare and Medicaid Services—a move aimed at stopping implementation of the Affordable Care Act—and a \$367 million cut in funding for the Corporation for National and Community Service, which administers the AmeriCorps public service program.²⁰

Projections for the FY 2018 federal budget explain exactly how Pell Grants could eat up a large portion of the LHHS appropriations bill if there are no changes in the spending caps. According to the Congressional Budget Office, or CBO, the FY 2018 cap for non-defense discretionary spending is \$515 billion, an increase of \$11 billion, or 2 percent.²¹ Projected forward from the 302(b) allocation for the 2015 LHHS appropriations bill—assuming it increases at the same rate as the overall nondefense figure—the FY 2018 LHHS allocation would be \$161.4 billion. That is about \$3.5 billion higher than the estimate for FY 2017, theoretically giving appropriators some breathing room to increase spending. (see Table 1)

The problem is that CBO says appropriators will also need to find an additional \$2.3 billion for the Pell Grant Program in FY 2018.²² Fully funding that amount alone will eat up two-thirds of the available new dollars in the LHHS appropriations bill, leaving all other agencies funded by the bill—including the rest of the U.S. Department of Education as well as the U.S. departments of Labor and Health and Human Services—to fight over about \$1.1 billion. In many ways, this federal in-fighting is the rosier scenario under the Budget Control Act. In FY 2021, the Pell Grant Program will need an estimated \$3.9 billion more, which is about \$100 million more than the estimated \$3.8 billion increase in funding—more formally known as budget authority—for the LHHS allocation that year. (see Table 1)

The table below shows the Center for American Progress’ estimates of additional funds available for the entire LHHS appropriations bill versus the additional money needed for the Pell Grant program.

TABLE 1

Estimated changes in appropriations limits for the U.S. departments of Labor, Health and Human Services, and Education under the Budget Control Act versus estimated changes in Pell Grant costs

Billions of U.S. dollars, by federal fiscal year

	2018	2019	2020	2021
Additional budget authority for departments of Labor, HHS, and Education	3.4	4.4	4.4	3.8
Increase in Pell Grant costs to maintain current law	2.3	2.7	3.1	3.9
Pell Grant share of new budget authority	67%	62%	71%	103%

Source: Center for American Progress analysis of Congressional Budget Office, “Updated Budget Projections: 2015 to 2025” (2015), tables 1–3, available at <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49973-UpdatedBudgetProjections.pdf>; Congressional Budget Office, “Federal Pell Grant Program, Cumulative Surplus/Shortfall and Funding Gap” (2015), available at https://www.cbo.gov/sites/default/files/cbofiles/attachments/44199-2015-03-Pell_Grant.pdf.

Some proposed FY 2016 spending levels could make the interaction between Pell Grants and the departments of Labor and Health and Human Services spending even worse in the future. For example, Congress’ FY 2016 conference agreement proposes to drop the spending caps even further below those set by the Budget Control Act, which would result in \$206 billion less in spending from FY 2017 to FY 2021.²³ If enacted, these caps would not provide enough additional dollars to fund the Pell Grant Program, causing it to eat into other agencies’ spending in the LHHS account, including other programs at the U.S. Department of Education. If restricted only to the U.S. Department of Education, the cuts needed to preserve Pell Grants could be particularly devastating, even to the large formula programs such as Title I grants for low-income K-12 students or support for special education.

One challenge in estimating the effects of Congress’ new proposed spending caps on the LHHS allocation is that the House and Senate have slightly different estimates for its 302(b) in FY 2016. Though the difference is not large—only about \$136 million—this analysis uses the midpoint of the two figures to project allocations going forward.²⁴ In addition, both chambers’ appropriations committees propose to reduce Pell Grant spending in FY 2016. The House proposes to cut \$370 million from the Pell Grant allocation, while the Senate suggests a cut of \$300 million from the existing Pell Grant surplus.²⁵ While these numbers are not included in this analysis, if the House reduction is enacted, then Pell Grants will face an estimated shortfall of \$633 million in FY 2017, eating into the spending cap space a year earlier than expected and causing larger sums to be needed in future years.²⁶

The table below shows the additional amount of budget authority for LHHS and the Pell Grant program’s share of that additional amount under Congress’ new proposed spending caps for FY 2018 through FY 2021.

TABLE 2

Estimated changes in appropriations limits for U.S. departments of Labor, Health and Human Services, and Education under the fiscal year 2016 congressional budget resolution versus estimated changes in Pell Grant costs

Billions of U.S. dollars, by federal fiscal year

	2018	2019	2020	2021
Additional budget authority for departments of Labor, HHS, and Education	0.3	2.8	2.5	2.5
Increase in Pell Grant costs to maintain current law	2.3	2.7	3.1	3.9
Pell Grant share of new budget authority	740%	98%	125%	155%

Source: Center for American Progress analysis of U.S. House of Representatives Committee on the Budget, “Table 2: FY 2016 Budget Resolution Conference Agreement Budget Aggregates” (2015), available at http://budget.house.gov/uploadedfiles/summary_tables_fy2016.pdf; Congressional Budget Office, “Federal Pell Grant Program, Cumulative Surplus/Shortfall and Funding Gap” (2015), available at https://www.cbo.gov/sites/default/files/cbofiles/attachments/44199-2015-03-Pell_Grant.pdf.

The scenarios outlined above illustrate the types of unpleasant choices that policymakers are forced to make under unnecessarily strict budgetary caps. At a time when there are significant concerns about student loan debt, a cut to the Pell Grant program is a guarantee to open our nation’s most vulnerable students up to more and more loan debt. If allowed to stand, these caps will force appropriators in future years to choose between maintaining the nation’s signature investment in postsecondary education for low-income students and cutting crucial programs for younger individuals, displaced workers, medical research, or other important areas where government intervention is needed.

Fortunately, this entire situation is self-imposed by Congress. Sensible changes, such as ending the sequestration spending caps, could be done quickly through legislation. Doing so would provide much-needed relief to the appropriations process and would lessen the need to pick between funding the Federal Pell Grant Program and other domestic priorities.

At the same time, the past several years of Pell Grant funding suggest that it is time to reconsider changing how this crucial program is budgeted. Everything about the structure of the Pell Grant makes it unlike other discretionary programs. Eligible students are guaranteed a benefit, and Congress has to spend what it costs to provide the grants each year. In that light, the Pell Grant Program is constructed much more like other mandatory programs, such as Social Security. In fact, for many years, Pell Grants have been partially funded through mandatory money due to multiple laws that took money from private student loan companies in order to fund the program.²⁷ It is also worth noting that the other large federal student aid programs—such as Stafford Loans for undergraduate and graduate students—are all already funded through mandatory money.²⁸

Moving the Pell Grant Program to the mandatory side of the budget would also stabilize its funding over time. Currently, the Pell Grant program is subject to major spending shocks resulting from increased college enrollment that occurs when the nation's economy struggles. This creates unpredictability for appropriators and can result in shortfalls when lawmakers do not properly anticipate enrollment spikes and surpluses when the number of college students falls. In turn, these stresses can make it harder to properly distribute funds throughout the rest of the Labor and Health and Human Services appropriations bill.

Conclusion

Admittedly, funding Pell Grants through the mandatory side of the federal budget would likely register as a cost in the federal budget. Part of the reason for this is to reflect the cost of indexing the maximum award to inflation, something that requires additional spending past 2017.²⁹ Another reason why making Pell Grants mandatory would register as an expense, however, is based on a budgetary fiction. Since Pell Grants are funded through discretionary dollars, Congress is not legally required to set aside money to be spent in future years on the program. In reality, however, this assumption ignores the obvious fact that the elimination of the Pell Grant Program without identical spending for the same purpose elsewhere is politically impossible. A sensible budget agreement that deals with the spending caps could likely address this issue.

Congress has spent the last few years threatening the country's long-term economic viability in the pursuit of last-minute budget deals and cuts. The situation will only worsen if Congress continues this trend in FY 2016. It is time for Congress to be sensible rather than pit college students against sick patients, workers looking for retraining, and others who need federal assistance.

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Endnotes

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