Consolidated and Reformed Workforce Development and Literacy Act (1976): Speech 20

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Comments on CAREERS Bill higher education items...

Higher Ed Repeals

451. No objections from ED. The President's '97 Budget includes $10 million in funds and suggested appropriations language to allow non-competing continuation funding for Javits and Harris fellowships through the GAANN (Graduate Assistance in Areas of National Need) program. This will enable any remaining Javits and Harris fellows to complete their programs even if Javits and Harris are repealed.

452. No objections from ED on repeal of SPREs.

453. Strong objections from ED. The House should recede since the insertion of a different basis of accounting would require new regulations which, according to the Master Calendar provisions, could not go into effect until July, 1997, at the earliest. The business and industry contracting provisions of item 453 would also provide an easy loophole to avoid the intent of the 85/15 statute.

454. ED objects for two major reasons, clear Congressional intent and fairness: (1) Congress already provided a one year delay so that institutions whose fiscal year was calendar year 1993 did not have to report on 85/15 until their fiscal year 1994. Item 454 would give such schools yet another year, until their fiscal 1995, when it was Congress's clear intent to put off the regulations one year, not two; (2) ED is enforcing the statute and regulation as announced in a May, 1995, "Dear Colleague" letter to all proprietary schools. Three schools have been removed from Title IV eligibility based on their reporting in accordance with the Dear Colleague. Other schools that should have been removed but failed to report would be rewarded by this item, raising fundamental questions of fairness. Finally, the fact that only three schools reported being out of compliance with 85/15 suggests that for the overwhelming majority of schools, this ratio is not a problem, if they have reported accurately. Item 454 would appear to reward only violators.

Higher Education Privatization

486-519. ED strongly opposes Sallie Mae privatization under the conditions of the House bill. This is the major item among all the higher education provisions. It is also strongly opposed by the Treasury Department.

A number of private firms, state agencies, and private nonprofit corporations are operating successfully in the federally guaranteed student loan secondary market. Government sponsorship gives Sallie Mae unfair competitive advantage over these entities. Moreover, several entities, including Sallie Mae, have marketed asset-backed securities that are collateralized by guaranteed student loans in so-called "securitization" transactions, which has broadened the secondary market further by attracting investors such as pension funds and investment companies.

It is not acceptable public policy to perpetuate the life of a GSE that the Government has deemed to be no longer necessary, or to expose the Government indefinitely to whatever implicit or
potential taxpayer risks may be associated with the Government relationship, simply because the GSE's shareholders do not wish to give up their relationship to the Government.

520-529. If the Reconciliation Bill version of Connie Lee privatization is used instead of the House bill, the two major ED concerns with these provisions would relate to the establishment of the price of the stock: (1) requiring that the price be "acceptable" to Connie Lee risks the possibility that privatization will not occur because Connie Lee does not find the price acceptable, even though it was established through independent appraisal; (2) the maximum price stated in the bill (the value set by CBO in House Report 104-153 dated June 22, 1995) is unrealistic and, given the potential volatility of the stock (which is not publicly traded), is likely to be out of date at the time of the sale. The value set by CBO, approximately $7 million, was developed in January, 1995, and is substantially below the $19 million plus that ED paid for the stock, as well as significantly below a recent in-house estimate that conservatively valued the stock at approximately $10 million. The purchase price should be based on a current, independent appraisal and market conditions at the time of the sale.

Two purely technical concerns with the Reconciliation Bill version: the first reference to the Corporation (in subsection (a)(1)) needs to spell out the full name of the Corporation--the College Construction Loan Insurance Association and state that it will thereafter in that section be referred to as the Corporation. Second, in subsection (a)(5), the phrase "to any successor corporation" needs to be changed to read "any successor corporation"--at some point the phrase "shall refer to" was changed to "means" earlier in the sentence, and this conforming change was not made.