PRESIDENT CLINTON CALLS FOR AMERICA'S HOPE SCHOLARSHIPS

A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL

June 5, 1996

> *"This age of possibility means that more Americans than ever before will be able to live out their dreams. . .America knows that higher education is the key to the growth we need to lift our country. . . It's America's most basic bargain: We'll help create opportunity if you'll take responsibility."* -- President Clinton, Princeton Commencement, June 4, 1996

TO REALIZE THIS AGE OF POSSIBILITY, PRESIDENT CLINTON IS COMMITTED TO A REAL GROWTH STRATEGY:

1. **Putting our economic house in order**, through both deficit reduction and a balanced budget. President Clinton has cut the deficit in half since taking office, and this year he submitted to Congress the first genuine balanced budget in 17 years.

2. **Opening new markets to create jobs for American workers.** More than 1 million new export-related jobs have been created under the Clinton Administration.

3. **Investing in our workers so they can seize the opportunity of today's economy.** To unlock the age of possibility for all Americans, we must give every single child, and every adult who needs it, the chance to get the best possible education.

PRESIDENT CLINTON NOW CALLS FOR NEW AMERICA'S HOPE SCHOLARSHIPS: To Make 14 Years of Education -- At Least Two Years of College -- the Standard for All Americans. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.

- **$1,500 Tax Cut For College Tuition.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a $1,500 refundable tax credit for full-time tuition in their first year ($750 for half-time), and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year.

  - This $1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges. This $1,500 tax cut is $300 more than the average community college tuition and would make community college "free" for 67% percent of community college students.

  - This tax cut for middle-class families is paid for with new savings in President Clinton's balanced budget. America's HOPE Scholarships costs $7.9 billion, which will be offset by reducing sales source rule benefits, applying an international departure fee, and auctioning radio DARS spectrum.

- **$10,000 Tax Deduction for All Education and Training.** The President maintains his $10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.

- **Pell Grant Scholarship Increases for Lower-Income Students:** In announcing America's HOPE Scholarships, President Clinton also announced that his balanced budget will increase Pell Grants each year. The maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002.

> SENATOR BOB DOLE: **"President Clinton had an idea that was pretty good and that was credits for two-year college students."** -- Senator Bob Dole, Indianola IA campaign event, February 3, 1996.

AMERICA'S HOPE SCHOLARSHIPS BUILD ON PRESIDENT CLINTON'S PLAN FOR GUARANTEED ACCESS TO COLLEGE.

- **With the President's increased Pell Grant program support,** students have access to up to $5,100 in Pell Grants and student loans for their first year in college, and much more in future years.

- **President Clinton's Direct Student Loan Program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income. This year, "Pay-As-You-Can" loans will account for nearly 50% of loans this year.

- **President Clinton's National Service Program -- AmeriCorps:** Last year, 30,000 students earned up to $4,725 for service. By the end of next year, more than 65,000 students will benefit from this opportunity.

- **Work Study Expansion:** President Clinton's balanced budget includes an expansion of College Work Study to 1 million participants by 2002. The President has also challenged colleges to use additional work study funds to promote public service by putting students to work in the community.

- **Honors Scholarships for Outstanding High School Students:** President Clinton's balanced budget includes $1,000 scholarship for the top 5% of graduating students in every high school class. If this proposal is enacted this year, 128,500 graduating high school seniors will receive a scholarship to help finance their college education.

- **IRAs for Education:** President Clinton's balanced budget would change the law to allow penalty-free withdrawals for education

- **Skill Grants:** President Clinton's balanced budget includes $2,600 Skill Grants to enable dislocated workers to get needed skills

- **National Service College Scholarships To Reward High School Community Service**: President Clinton has challenged every high school student in the country to make a commitment to community service. To support this commitment, the President is asking all high schools to make service part of their basic ethic and to raise $500 to reward a high school student who has done significant work to help his or her community. <u>The federal government will then match the $500 to help that student go on to college.</u>

AMERICA'S HOPE SCHOLARSHIPS

A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL

June 4, 1996

PRESIDENT CLINTON ANNOUNCES THE HOPE SCHOLARSHIP PLAN TO MAKE 14 YEARS OF EDUCATION -- AT LEAST TWO YEARS OF COLLEGE -- THE STANDARD FOR ALL AMERICANS. President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. To further this guarantee, the President announced the following proposals:

- NEW AMERICA'S HOPE SCHOLARSHIP TAX CUT -- **Guarantees 2 Years of Tuition at the Average Community College for Any Student Who Earns a B Average.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a $1,500 refundable tax credit for full-time tuition in their first year ($750 for half-time), and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year. This $1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges -- and a downpayment at more expensive four-year schools.

- **$10,000 Tax Deduction for All Education and Training.** The President maintains his $10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.

- **Scholarship Increases (Pell Grants) for Lower-Income Students:** The President announced that his balanced budget plan increases Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002. The proposed increase in fiscal 1997 is the largest in the program's 25-year history.

BUILDS ON PRESIDENT'S PLAN FOR GUARANTEED ACCESS TO COLLEGE. The above initiatives build on the President's plan to guarantee that college is both accessible and affordable to every person -- through loans with pay-as-you-can repayment, grants, scholarships, and work study.

- **With the increased Pell Grant program support,** students have access to up to $5,100 in Pell Grants and student loans for their first year in college, and much more in future years.

- **The new Direct Student Loan program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income, and part of the savings from Direct Lending will be returned to students in the form of lower interest payments on their loans.

    - **New Direct Loans With Pay-As-You-Can Option:** Will account for 50% of loans
    - **National Service -- AmeriCorps:** 30,000 students earning up to $4,725 for service
    - **Pell Grants:** Provides for 7-year expansion, increasing maximum award to $3,128 in 2002
    - **$10,000 Education Deduction:** 16.5 million students get deduction for their tuition
    - **Work Study Expansion:** Proposes expansion to 1 million participants by FY2002
    - **Honors Scholarships:** Proposes $1,000 scholarship for top 5% of every high school class
    - **IRAs for Education:** Proposal allows penalty-free withdrawals for education
    - **Skill Grants:** Proposed $2,600 Skill Grants to enable dislocated workers to get needed skills

BACKGROUND ON HOPE SCHOLARSHIPS

Overview. Currently, millions of Americans have access to college through Pell Grants and the federal student loan program, including the President's Direct Student Loan program, but the average student with loans now graduates $10,000 in debt and many more may not go on to college because they are reluctant to borrow so much money. The annual cost of a public college increased from 9% of the typical family's income in 1979 to 14% in 1994. [Education Department, 1996] *The President's HOPE Scholarship Plan makes it clear that two years of college should be as universal as high school, and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.*

- **Guaranteed Average Tuition For Two Years of Community College:** The HOPE Scholarship Plan will ensure that students can get up to a $1,500 refundable tax credit, a Pell Grant, or a combination for tuition in their first year after high school, and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a "B" average. This $1,500 credit is $300 above the national average community college tuition and would make tuition free for 67% of all community college students. It would enable states that set tuition within $300 of the national average *to make community college tuition free for every student.* The credit would be indexed to inflation each year to protect its value.

- **$1,500 For The First Two Years At <u>Any</u> College For Students Who Earn At Least a B Average:** While the HOPE Scholarship tax credit is priced to pay for the full cost of two years of community college tuition for students who earn at least a "B" average in their freshman year, the $1,500 credit can be applied to tuition at any college, from a two-year public community college to a four-year private college. This $1500 tax credit will be a substantial downpayment for parents sending their children to colleges with higher tuition.

- **$750 for Half-Time Students:** The HOPE Scholarship Tax Cut is designed to assist parents and current workers who want to further their education. Those who can only go to school half-time because of their job or parenting obligations, are eligible for a $750 refundable credit per year until they have completed two full years of college. The "B" average requirement also applies to half-time students.

- **Includes 1-Year Certificate Programs:** Students at training and technical programs eligible for Pell Grants under Title IV of the HEA are also eligible HOPE Scholarships.

- **Interaction with the $10,000 Education Tax Deduction:** Students would receive either the HOPE scholarship or the $10,000 tax deduction in any year. Eligible students in their first two years or their parents can choose between either the Hope Scholarship or the deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Costs:** The HOPE Scholarship Plan is fully paid for within the President's balanced budget plan. The President's initial proposal for a $10,000 deduction cost $35 billion over six years. The new proposal, with the $1,500 tax credit, costs $42.9 billion over 6 years. To offset this increase, the Administration proposes to reduce sales source rule benefits, apply an international departure fee, and auction radio DARS spectrum.

  In addition, the $10,000 deduction is also more targeted by conforming the income limits to match the income limits for the proposed expanded IRAs. The deduction had been phased out for joint filers with income between $100,000 and $120,000, and for single filers with income between $70,000 and $90,000. It will now be phased out for joint filers with income between $80,000 and $100,000, and for single filers with incomes between $50,000 and $70,000.

- **"B" Average:** To remain eligible for the credit, students must earn at least a "B" average or a 2.75 grade point average in their first year of college or post-secondary school. Based on the National Post-Secondary Student Aid study, more than half of students earn a 2.75 average or better.

- **Students Must Stay Drug-Free:** A student is ineligible if, in accordance with the Drug-Free Post-Secondary Education Act of 1990, he or she has been convicted of committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

- **Administration:** Administrative issues such as the timing and delivery of the tax credit will require consultation with states and schools to ensure that the plan provides maximum flexibility and efficiency and local control rather than top-down administration. The Treasury Department and Department of Education will work with Members of Congress, Governors, school superintendents, and college financial aid administrators to design the most flexible and efficient system, and to ensure against excessive and abusive tuition increases.

- **Challenge to States.** The President is challenging states to build on the HOPE Scholarship Plan by following Georgia's lead and making scholarships available for four years of college for students who maintain a "B" average. The President is also challenging the 17 States that set tuition above $1,500 to reduce costs so that with the HOPE Scholarship tax cut, community college will be free for every student.

BACKGROUND ON PELL GRANT INCREASE

Overview. The Pell Grant is the main federal grant that allows millions of low-income and middle class families to have access to college. Despite the fact that the President's budget contains well over $200 billion in discretionary cuts over 7 years, the President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002.

- **$2 Billion Program Deficit Eliminated.** The projected $2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.

- **Record Increase in FY1997:** The President's fiscal year 1997 budget calls for funding to support a $2,700 maximum Pell Grant -- nearly a 10% increase over the current level -- which would provide more than 3.7 million students with Pell Grants averaging $1,706 in 1997. This proposed increase in the maximum Pell Grant Award would be the largest increase in the program's 25-year history.

- **President Announces Yearly Pell Grant Increases:** The President's balanced budget contains the following seven-year increase in the maximum Pell Grant awards.

Fiscal Year	Maximum Award
1995	$2,340
1996	$2,470
1997	$2,700
1998	$2,780
1999	$2,863
2000	$2,949
2001	$3,037
2002	$3,128

- **President's 7-Year Pell Grant Increase Could Provide 2.7 Million More Grants Than Republican Budget Resolutions:** Both the House and Senate FY1997 Budget Resolutions freeze the budget authority for the Pell Grant program from FY1997 -FY2002. This means that Republicans would provide 2.7 million fewer Pell grants over 6 years, and deny 191,000 students Pell grants in FY1997 alone compared to the President's balanced budget plan. Under the funding freeze assumed in the Republican resolutions, the maximum Pell grant award would decrease 17%, from $2,470 in FY1996 to $2,055 in FY2002.

  Last year, House Republicans tried to cut the Pell Grant program by $450 million, denying Pell Grants to 380,000 students in 1996 alone.

$10,000 EDUCATION DEDUCTION

- **Breadth of Application**: The $10,000 Education Deduction would be for every taxpayer for the tuition at any education or training program that is at least half-time or related to a worker's career.

- **Supplements Hope Scholarship Tax Cut**: In any year, students in the 13th and 14th grades would receive either the HOPE Scholarship or the $10,000 tax deduction. Eligible students in their first two years or their parents can choose between either the HOPE Scholarship or the deduction. Students that relied on the $1,500 tax credit in the first two years of college would still be eligible for the $10,000 deduction in the remaining years of college or graduate school or for qualified lifelong learning. Students not eligible for the tax credit would still be eligible for the $10,000 deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Income Limits**: For joint filers, the deduction would be phased out at incomes between $80,000 and $100,000. For single filers, the deduction would be phased out between $50,000 and $70,000.

- **Unlimited Number of Years**: While the HOPE Scholarship is for the first two years of college, the $10,000 tax deduction is available any year a family had education expenses. For example, a family of four with an income of $40,000 and five years of tuition expenses totaling $10,000 would receive a $7,500 tax cut over that five-year period.

Paying For America's HOPE Scholarship Tax Cut

Balanced Budget Framework. The President's new America's HOPE Scholarship Tax Cut proposal is completely paid for with specific budget savings so that the President's overall plan continues to reach balance in fiscal year 2002.

Current Education Tax Deduction: $35 Billion FY 1997-2002. The President's current education tax cut -- $10,000 deduction -- costs $35 billion over 6 years (FY 1997-2002) and is paid for within the balanced budget plan that has been certified as reaching balance in 2002 by the Congressional Budget Office.

New Proposal: $42.9 Billion FY 1997-2002. The new combined proposals would be $42.9 billion. The breakout of these costs are as follows:

	FY 1997-2002 Cost
America's HOPE Scholarship Tax Cut	$25.1 Billion
$10,000 Education Tax Deduction	$17.8 Billion
TOTAL COST	**$42.9 Billion**

The additional $7.9 billion in net new costs are paid for with specific savings listed below:

	FY1997-2002 Savings
Reduction of Sales Source Rule Benefits	$3.5 Billion
International Departure Fee	$2.3 Billion
Auction Radio DARS Spectrum	$2.1 Billion
TOTAL SAVINGS	**$7.9 Billion**

NOTE: While the President's new America's HOPE Scholarship Tax Cut has gross costs of $25.1 billion over FY 1997 to 2002, the net increase in the President's overall education tax cut is only $7.9 billion because of savings that take place in the President's $10,000 education tax deduction.

- Most of those savings ($10.7 billion) come from families choosing the HOPE tax credit over the $10,000 education tax deduction.

- The remaining savings ($6.5 billion) come from lowering the phase out income limits for joint filers from $120,000 to $100,000 to conform to the Administration's expanded IRA proposal.