

Mandatory Funding in the Department of Education

Most of the Department's 120-plus programs are funded through discretionary appropriation acts enacted each fiscal year. However, there are many education programs—some of them large—that are funded directly through their authorizing statutes. For many budgeting purposes, these programs are classified as mandatory.

The Direct Loan program is the largest mandatory program in the Department. The Direct Loan program will make an estimated \$115 billion in loans to postsecondary students and their families in fiscal year 2012. However, the appropriation for these loans is not \$115 billion. Instead, under the Credit Reform Act, the appropriation is the amount necessary to subsidize the loan volume for the life of the cohort of loans made in the fiscal year, and the subsidy costs are discounted using a net present value calculation. In 2012, these subsidy costs include the Government's cost of obtaining \$115 billion, the cost to defray the in-school interest for needy undergraduates, an allowance for defaults, and other factors. These are offset by collections of fees, interest, and principal repayments. In some years, after reflecting the time value of money, or the "reestimate," of prior year loans required by the Credit Reform Act, the estimated receipts exceed the cost of the subsidizing the loans.

When added together with other mandatory programs, the negative appropriations from the estimated receipts for student loans produce Department totals that appear to understate the annual appropriations for discretionary and mandatory programs. For example, in 2011 and 2013, the mandatory appropriation total for the Department is projected to be negative. The 2012 appropriation would also be negative except that the budget assumes enactment of the American Jobs Act. Under this proposal, the Department would receive \$61.6 billion in mandatory funds in 2012.

Other mandatory programs include Vocational Rehabilitation State Grants, a portion of Pell Grants, and a variety of smaller programs and activities. The mandatory funding for Pell Grants comes from several laws, including SAFRA, the Budget Control Act of 2011, and appropriation acts. Some of the mandatory Pell Grant funding is specified in these laws, and some fluctuates based on inflation and program participation.

The table that follows summarizes the appropriations for mandatory programs.