Required Supplementary Stewardship Information

OMB requires each federal agency to report on its stewardship over various resources entrusted to it and certain responsibilities assumed by it that cannot be measured and conveyed through traditional financial reports. These elements do not meet the criteria for assets and liabilities required in the preparation of the Department’s financial statements and accompanying footnotes, but are nonetheless important to understanding the agency’s financial condition, strategic goals, and related program outcomes.

Stewardship Expenses

Stewardship expenses are substantial investments made by the federal government for the long-term benefit of the nation. Because costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as Required Supplementary Stewardship Information to highlight their benefit and to demonstrate accountability for their use.

In the United States, the structure of education finance is such that state and local governments play a much greater overall role than the federal government. Of the estimated more than $1 trillion spent nationally on all levels of education, the majority of funding comes from state, local, and private sources. In the area of elementary and secondary education, nearly 90 percent of resources come from nonfederal sources. These funds serve over 50 million students enrolled in public, private, and charter schools in the United States and its territories, according to the National Center for Education Statistics. See the National Center for Education Statistics Condition of Education for more information.

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Namely, federal funding is used to provide grant, loan, loan-forgiveness, work-study, and other assistance to more than 20 million postsecondary students. The majority of the Department’s $285 billion in gross outlays during FY 2016 were attributable to Direct Loan disbursements administered by FSA. Grant-based activity under discretionary, formula, and need-based formats primarily accounted for the remainder of the outlays.

Discretionary grants, such as the Federal TRIO Programs and the Teacher Incentive Fund, are awarded on a competitive basis. When funds for these grants are exhausted, they cease to be funded. The Department reviews discretionary grant applications using:

- a formal review process for selection,
- both legislative and regulatory requirements, and
- published selection criteria established for individual programs.

Formula grants, such as Title I and Title III of the Elementary and Secondary Education Act, are not competitive. The majority go to school districts, as often as annually, on a formula basis, and they:

- provide funds as dictated by a law and
- allocate funds to districts on a per-student basis.
Need-based grants, including the Federal Pell grant, Federal Work Study, and the Federal Supplemental Educational Opportunity Grant, are based on family income and economic eligibility. While there are many state, institution (college or school), and privately sourced need-based grants, most need-based grants are funded by the federal government where the financial aid formula is determined by a combination of factors, including:

- family income and discretionary assets,
- expected family contribution, and
- dependency status of the student and other members of their family.

Further details on financial figures and program-level goals can be viewed in the Department’s 2016 Budget Summary.

**Investment in Human Capital**

Human capital investments are defined similarly by OMB, in Circular A-136, and the Statement of Federal Financial Accounting Standards No. 8, *Supplementary Stewardship Reporting*. These investments are expenses included in net cost for education and training programs intended to increase or maintain national economic productive capacity and produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

Departmentwide strategic goals are formed around the agency mission of promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department drives toward accomplishing this mission by establishing priority areas. For 2016, the following six elements of focus were enumerated in the Department’s Budget Request:

- increasing equity and opportunity for all students,
- strengthening support for teachers and school leaders,
- expanding high-quality preschool programs,
- augmenting affordability and quality in postsecondary education,
- promoting educational innovation and improvement, and
- improving school safety and climate.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of “cradle to career” education. Direct Loans, guaranteed loans, grants, and technical program assistance are administered and monitored by FSA and numerous other program-aimed components of the Department. The Institute of Education Sciences is the independent nonpartisan research arm of the Department that aims to present scientific evidence on which to ground education practice and policy while providing useful information to all stakeholders in the arena of American education. Further details of each office and their work can be viewed on the Department’s Coordinating Structure website.

The following table illustrates the Department’s expenses paid for bolstering the nation’s human capital, broken out by the nature of the expense, for the last five years.
### Summary of Human Capital Expenses

(Dollars in Millions)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Federal Student Aid Expense</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Loan Subsidy</td>
<td>$16,119</td>
<td>$(892)</td>
<td>$8,126</td>
<td>$(39,557)</td>
<td>$(10,720)</td>
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<tr>
<td>Federal Family Education Loan Program Subsidy</td>
<td>10,234</td>
<td>(3,856)</td>
<td>(6,585)</td>
<td>(8,753)</td>
<td>(14,381)</td>
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<tr>
<td>Perkins Loans, Pell and Other Grants</td>
<td>30,671</td>
<td>31,400</td>
<td>33,098</td>
<td>33,542</td>
<td>34,310</td>
</tr>
<tr>
<td>Program Operational Costs</td>
<td>308</td>
<td>242</td>
<td>206</td>
<td>222</td>
<td>192</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>57,332</td>
<td>26,894</td>
<td>34,845</td>
<td>(14,546)</td>
<td>9,401</td>
</tr>
<tr>
<td><strong>Departmental Programs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary and Secondary Education</td>
<td>22,155</td>
<td>22,146</td>
<td>22,832</td>
<td>22,221</td>
<td>22,137</td>
</tr>
<tr>
<td>Special Education and Rehabilitative Services</td>
<td>15,944</td>
<td>15,751</td>
<td>15,948</td>
<td>15,919</td>
<td>16,139</td>
</tr>
<tr>
<td>American Recovery and Reinvestment Act and Education Jobs Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,623</td>
<td>7,651</td>
</tr>
<tr>
<td>Other Departmental Programs</td>
<td>6,349</td>
<td>6,494</td>
<td>6,938</td>
<td>6,175</td>
<td>6,211</td>
</tr>
<tr>
<td>Program Operational Costs</td>
<td>625</td>
<td>511</td>
<td>667</td>
<td>703</td>
<td>481</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>45,073</td>
<td>44,902</td>
<td>46,385</td>
<td>47,641</td>
<td>52,619</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>$102,405</td>
<td>$71,796</td>
<td>$81,230</td>
<td>$33,095</td>
<td>$62,020</td>
</tr>
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</table>

Further detail regarding the nature of expenses and the recipient(s) of payments can be seen in the Department’s financial statement footnotes (starting on page 50) and at the Department’s USA Spending Agency Profile Page.

### Program Outcomes

Favorable results in the various programs administered by the Department can be interpreted in many ways. The “cradle to career” analogy in education culminates with the successful completion of academic programs and the receipt of a degree. Accordingly, the effectiveness of the Department’s investments in human capital can be gauged by changes in the number of students who fully complete the requirements for earning a bachelor’s or associate degree. This often final stepping stone in one’s educational career correlates strongly with wage and/or salary increases for a person, due to the high-level skills expected by employers of graduates entering the labor force. Attaining a degree has proven to increase an individual’s job opportunity outlook for life, making them less susceptible to general economic downturns and allowing them to afford living expenses more comfortably; make debt payments, including student loans; and avoid delinquency and credit problems. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater national security.
Interesting data regarding U.S. unemployment rates and average incomes published by the Department of Labor in September 2016 are illustrated in the graphs below.

An inverse relationship is evident where persons who completed lower levels of education experienced higher rates of unemployment. For example, as of September 2016, men and women together had the following unemployment rates:

- 8.5 percent for those who had not completed high school,
- 5.2 percent for those who had completed high school, and
- 2.5 percent for those who had completed a bachelor’s degree or higher.

Another relationship clearly exists for the effect on income based on whether an individual has a high school education or a college education. For example, as of September 2016, men and women had the following average incomes:

- $40,000 annually for men with a high school diploma,
- $69,000 annually for men with a college degree,
- $31,000 annually for women with a high school diploma, and
- $52,000 annually for women with a college degree.
Nationally, progress is being made from early education, expanding through the time college graduates enter the workforce, as well as later in life when they are repaying student loan debt incurred for postsecondary education. Broad improvements to the system increase equitable opportunities for every child to have the privilege to learn, develop life skills, and succeed over the course of their adult life. These improvements certainly accelerate the attainment of national educational goals.

Successful outcomes like these in early-focus areas lead to elementary school students who continue to outperform their predecessor classes. This is shown in the fact that 4th and 8th grade metrics for aptitude tests in math and reading, presented by the National Assessment of Educational Progress, are at their highest ever.

At the secondary level, the number of students graduating or completely fulfilling general education requirements continues to rise each year. Increases are also taking place for all levels of postsecondary degrees. Recent data shows that 91 percent of young adults aged 25–29 have a high school diploma or equivalent, 45 percent have an associate degree, and 34 percent have a bachelor’s degree or higher. For the same age range, expanded to include those up to 34 years old, earnings were higher and unemployment was generally lower for each increased level of education.

With increased completion of high school diplomas, participation in some form of postsecondary education has also risen. In the 2013 cohort of students graduating from high school, for example, 66 percent enrolled in college the following fall. Participation in postsecondary programs is particularly higher for Black and Hispanic students, who have shown a combined increase of 1.1 million students since 2008.

One important method used in the area of analyzing student loan programs, borrower activity, and institution participation is the monitoring of default statistics. Each year, substantial stewardship expenses incurred by the Department are aimed at lowering the number of defaulted loans, defaulted borrowers, and disbursed dollars going into default. This is done because every default—when a loan payment is missed for multiple months—results in loan funds that are not replenished, missed opportunities to invest in other
degree-seeking human capital, and additional resources used by the government in attempting to collect its money. Each aspect of a default costs American taxpayers, affects the federal budget, decreases economic well-being, and harms borrowers’ credit scores.

Although a direct and proven linkage does not exist between the two variables, the Department feels strongly about its ability to mitigate the risk of default through various efforts. Stewardship expenses for this postsecondary goal include those incurred to increase borrower awareness of repayment options, encouraging third-party loan servicers to work more effectively in helping students avoid default by devising viable repayment plans, and by working with financial aid offices around the country to help them improve the loan counseling provided to students who have yet to graduate or enter repayment.

Default statistics for the FY 2013 cohort of borrowers entering repayment were released at the end of FY 2016. Of the 5.2 million borrowers entering repayment from October 1, 2012, to September 30, 2013, 593,000 defaulted on their loan before September 30, 2015. This borrower default rate of 11.3 percent across all institution types showed a decline from the prior year rate of 11.8 percent for the 2012 cohort. It is important to note that this metric is unadjusted for loan program facets, such as consolidations and forbearance.

Trends in default rates, among other indicating metrics monitored at the Department, continue to support proof of favorable outcomes within programs at all levels. The figures also effectively convey the synergetic nature of the Department’s mission for improving one of the most important building blocks of the nation’s infrastructure. Individual achievements fostered by the Department’s investments in human capital and supporting stewardship expenses as far back as “the cradle” continue to build a powerful foundation for career success and advancement of the nation, in and of itself, and against global competitors.