Fact Sheet: Short-Term Pell Could Increase the Risk of a Program Shortfall

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Cost of Expanding Pell Grants to Short-Term Programs is Likely Far More Expensive Than Projected, Could Threaten Overall Program

The Congressional Budget Office (CBO) has scored the expected cost of expanding Pell grant eligibility to students enrolling in short-term training and credentialing programs that are 8 to 15 weeks in length at a cost of $1.7 billion over ten years. An estimated $1.5 billion would need to come from discretionary annual appropriations. While legislation (H.R. 6585) to expand Pell eligibility would offset the *mandatory* cost – potentially by applying a risk-sharing model to a set of the wealthiest institutions – the bill does not propose any revenue to offset the *discretionary* cost of the Pell expansion, which would be subject to the appropriations process. This cost, therefore, could compete with other priorities in the annual Labor-Health and Human Services-Education appropriations bill, and could potentially impact the size of the maximum Pell grant for all students.

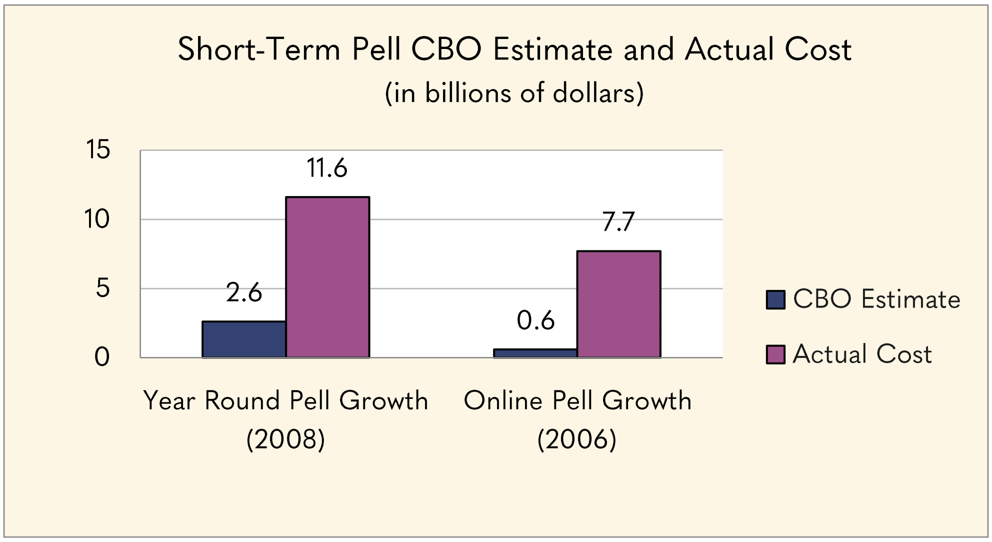
Although the Pell grant program has experienced budget surpluses in recent years, the surplus is expected to shrink in the coming years, potentially as soon as fiscal year 2026. This shifting budget situation results from the implementation of bipartisan, student-friendly policies, including increases in the maximum grant and increased Pell grant eligibility due to changes in the FAFSA formula. Enrollment increases emerging from the Covid-19 pandemic have also led to increased Pell use.

CBO has Underestimated the Cost of Previous Expansions

Even if the Pell surplus were to remain robust, the CBO estimate of the cost of expanding the Pell grant to students enrolling in short-term programs should be viewed with some skepticism. Historically, CBO has dramatically underestimated the cost of making new investments in federal financial aid. Changes that Congress made in 2006 and 2008 that expanded Title IV (including Pell) eligibility provide two examples of just how much more expensive than anticipated such expansions can be.

When Congress authorized the expansion of online education in 2006 by eliminating the requirement that at least 50 percent of instruction occur in person, CBO estimated the increased cost to the Pell grant program to be $603 million over 10 years. In fact, the cost grew to $7.7 billion.

Similarly, in 2008 when Congress first allowed students to obtain a second Pell grant to attend school year-round, CBO estimated the increased cost to the Pell grant program would be $2.6 billion over 10 years. In fact, it was $11.6 billion, with costs escalating so quickly that Congress intervened and drastically reduced the availability of the second grant in 2011.



Source: New America: Could Short-Term Pell Lead to a Pell Shortfall?

For-Profit Colleges Have Exploited Previous Pell Expansions

Unexpected cost increases to the Pell grant program can be more dramatic when new funds are made available to proprietary (for-profit) colleges. Currently, many community colleges offer very short-term programs. One example can be found in Virginia's FastForward program, which is funded with state dollars. But few for-profit colleges currently offer 8 to 15 week programs – likely because no federal funds that they could turn into bottom-line boosts are now available for these programs.

In contrast to the JOBS Act (S. 161/H.R. 793) – which includes key protections incorporated through various versions over multiple sessions of Congress and has been reintroduced for the 118th Congress – the current House bill (H.R. 6585) explicitly allows for-profit programs to access Pell grants for very short programs. H.R. 6585 contains provisions to ensure that students enrolling in short programs are demonstrating earnings increases, but allowing for-profit colleges to access these funds should give pause to policymakers interested in advancing Pell grants for short-term programs. Unexpected cost increases to the Pell program can be more dramatic when for-profit colleges are included as eligible institutions.

Looking at the history of the GI Bill program and the federal loan program, a timeline demonstrates that each time new federal dollars have been made available, for-profit companies have rapidly established a larger-than-expected number of programs of highly questionable quality, with many engaged in predatory recruiting practices that have harmed students.

Because they generally offer more expensive programs than those at public colleges, for-profits consistently have played a disproportionate role in driving up the cost of Pell grant expansions. Between 2001 and 2010, the cost of the overall Pell program more than tripled, growing from $8 billion to $30 billion. The increase in Pell grant revenues flowing to for-profit colleges, however, rose more than six-fold, increasing from $1.1 billion to $7.5 billion, and from 14 percent to 25 percent of overall Pell spending.

Overall, expanding Pell grants for very short-term programs should be expected to put significant new pressure on the Pell grant program, particularly as the Pell surpluses of past years are anticipated to shrink and potentially disappear. This pressure on the Pell program could endanger funds and, as a result, risk support for low-and middle-income students at the time they need it most.