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An Education Reconciliation Agenda for the 119th Congress: 12 Reforms

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KEY TAKEAWAYS

The 119th Congress should use the budget reconciliation process to advance 12 education reforms that right-size federal involvement in K–12 and higher education.

The reforms include advancing education choice, reducing excessive higher education spending, and providing accountability to taxpayers of how their money is spent.

These measures provide a clear path for Congress to begin the process of reducing federal intervention in education and restoring state and local control.

The budget reconciliation process, introduced in 1974 as part of the Congressional Budget Act, functions as a supplementary tool to the annual budget process.[1] Reconciliation involves two phases: First, the budget resolution outlines directives for designated committees to craft legislation that meets specified budgetary targets.[2] In the second phase, this legislation, typically combined into a single omnibus bill, is processed under streamlined procedures in the House and Senate.[3]

In the 119th Congress, lawmakers should use the budget reconciliation process to advance the following education reforms that right-size federal involvement in education and uphold accountability for taxpayer dollars.

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K–12 Reforms

In order to right-size federal involvement in K–12 education, Congress should:

1. **Make the Municipal Bond Exclusion Contingent on a State Implementing a Robust School Choice Law.** States often issue municipal bonds in order to finance infrastructure projects such as building highways and public schools. These bonds are exempt from most taxes, including federal income taxes. Normally, bond markets require borrowers to pay a high enough interest rate to clear inflation and the tax burden on the interest income as well as paying some real rate of return. Whereas private entities must pay a high enough interest rate to clear all three components, states and municipalities must only clear inflation and a real rate of return. In this way, the tax-exempt status works as a subsidy, allowing states and municipalities to issue debt at much lower interest rates than private entities. Through municipals bonds, states can tap into these tax-advantaged debt securities to gain aid from the federal government to inappropriately out-compete private citizens and entities, such as prospective homebuyers, private schools, and other businesses for finite funding.

   As a general matter, federal tax policy should strive toward simplicity, as few market distortions as possible, and low rates across the board. The municipal bond exclusion fails all three of these tests. As long as the municipal bond exclusion exists, Congress should support ways to minimize its distortions of the U.S. economy and society. As long as states typically use the federal benefit to finance public school construction, while excluding other education options, the policy should be reformed so as to not preference a particular type of K–12 education setting. As part of the reconciliation process, Congress should reform the Internal Revenue Code (IRC) § 103(a) to make the municipal bond exclusion contingent on a state having a robust school choice program. In order to receive the federal benefit on future bond issuances, Congress should condition the benefit on states implementing a school choice program (such as a private school voucher program, tax credit scholarship program, or education savings account program) in which at least half of all students in the state are eligible to participate, accessing at least 50 percent of state per-pupil spending.

2. **Ensure that the School Meals Program Serves Only Children from Low-Income Families.** When President Harry S. Truman signed the National School Lunch Act into law in 1946, the program's purpose was to redirect surplus farm products to school lunch for children from low-income families. In 2010, however, the Obama Administration dramatically expanded eligibility to school meals subsidies that had previously been reserved for poor children by allowing districts to group poor and better off schools together as part of the new law's Community Eligibility Provision (CEP).

   Whereas prior to the CEP at least 40 percent of a school's enrolled children had to be eligible for certain welfare programs in order for the entire school to qualify for free meals, the CEP allowed districts to group schools with a lower (unqualifying) percentage of low-income children with schools with higher proportions of low-income children enabling both schools—including the one with few poor children—to receive free school meals. And on September 26, 2023, the Biden Administration finalized a rule reducing the 40 percent threshold to just 25 percent, allowing schools or *groups of schools* with just 25 percent of children eligible for certain welfare programs to qualify *every student* in the *entire group of schools* for free, federally subsidized, meals.[4] Federal audits have documented massive waste in the school meals program, logging nearly $1 billion in improper payments annually.[5]

   Rather than using limited taxpayer resources to fund school meals for students from middle-income and upper-income families, Congress should restore the school meals program to its original purpose—providing nutritious meals to children in need—by rescinding the CEP as part of the reconciliation process. If full rescission is not possible, Congress should raise the CEP threshold to at least 60 percent.

3. **Modernize and Expand the DC Opportunity Scholarship Program (OSP).** Since 2004, the DC OSP—the only federally funded school choice program in the country—has been a beacon of hope for low-income children in the nation's capital. Participating students receive a voucher to attend a private school of their parents' choice, and those participants perform significantly better in terms of academic outcomes than their peers who do not participate in the OSP. Despite its success—and despite the fact that school choice is

spreading across the country—the DC voucher program is languishing on the vine. Scholarship amounts are not keeping pace with inflation, eating into participating schools' budgets. The program is subject to an annual appropriations process, leaving it to the political whims of an ever-changing Congress. The low amount of funding appropriated to the voucher program—around $20 million annually—enables just 1,700 children to participate. And its structure as a traditional voucher program, rather than a more flexible education savings account (ESA) option, makes it out of step with the design of modern-day school choice programs.

Through reconciliation, Congress should formula fund the DC OSP, making it operate as a standard formula-funded grant program with mandatory spending that is distributed to participants based on criteria set in law. Congress should set a base per-student funding amount in relation to the per-pupil spending in the DC public school district and then add additional weights to establish a formula that provides supplemental funding for students with special needs. This method would provide consistency for participants and bring stability to the scholarships.[6]

At the same time, Congress should allow the vouchers to function like ESAs. With an ESA, students can use their portion of funds to pay for private school tuition as well as other education-related services and products, such as tutoring, textbooks, online learning, schooling at home, and special education services. Unused funds can also be rolled over from year to year and can be rolled into a college savings account. Finally, Congress should expand eligibility to the DC OSP—which is currently limited to students from low-income families—to all families living in Washington, DC, because all funding should go directly to students, rather than schools to which they are assigned. Through the reconciliation process, Congress should modernize the DC OSP, transforming it into a universal formula-funded ESA for all DC families.

4. **Establish Education Savings Accounts (ESAs) for Military Families and Students in Tribal Areas.** National security is an enumerated power and responsibility of the federal government. For military families, the quality of their children's education is a key factor in deciding whether to stay in or leave the military.[7] Notably, military families strongly support ESAs; a 2019 national survey found that 72 percent of active-duty military respondents favored them.[8]

As part of the budget reconciliation process, federal lawmakers should consider including legislative language similar to that of the Education Savings Accounts for Military Families Act of 2023,[9] which would provide military families with ESAs worth about $6,000 per year. Rather than having to send their children to the public school closest to their duty station, military families could use their ESAs to purchase various educational products and services, such as private school tuition, online classes, tutors, textbooks, and more.

Similarly, federal lawmakers should create ESA options for children on tribal lands, including those enrolled in Bureau of Indian Education (BIE) schools, which have long struggled with low academic achievement. Federal lawmakers should include legislative language in the budget reconciliation process that would give children in BIE-funded schools access to ESAs, helping them to access better educational opportunities. This would be an important step toward ensuring that these students receive the education that best meets their needs and allows them to reach their full potential.

Higher Education Reforms

In order to right-size federal involvement in higher education, Congress should:

5. **Repeal the Public Service Loan Forgiveness (PSLF) Program.** The PSLF Program, established under the College Cost Reduction and Access Act of 2007, was designed to support public service workers by canceling the remaining balance of federal Direct Loans after 10 years of full-time employment in qualifying public service jobs.[10] Borrowers must make payments under a 10-year standard repayment plan or an income-driven repayment (IDR) plan to qualify. While well-intentioned, the program has become a costly and flawed policy, burdening taxpayers and disproportionately benefiting higher-income households.

   Currently, Americans owe approximately $1.7 trillion in student loan debt. If borrowers fail to repay their loans, the financial responsibility ultimately shifts to taxpayers. Furthermore, student loan cancellation programs, such as PSLF, disproportionately benefit wealthier households. Research has shown that the top one-fifth of households owe $3 in student loan debt for every $1 held by the bottom fifth of households, indicating that forgiveness primarily serves higher-income individuals.[11] Compounding this issue is PSLF's lack of limits on loan forgiveness. Borrowers with Direct PLUS Loans for graduate and professional students, which have no aggregate borrowing caps, can qualify for forgiveness.[12]

Recent policy changes have further exacerbated PSLF's cost and scope. In January 2023, the Biden-Harris Administration introduced the Saving on a Valuable Education (SAVE) Plan, a new income-drive repayment program that reduced monthly payments from 10 percent to 5 percent of nonexempt income and raised the exempt income threshold from 150 percent to 225 percent of the federal poverty line.[13] These changes lower borrowers' monthly payments and increase the amount forgiven, significantly raising the program's cost. Additionally, a temporary PSLF waiver implemented in October 2021 allowed borrowers with any loan type or repayment plan to count as payments toward PSLF. As noted by the Foundation for Research on Equal Opportunity 's Preston Cooper, this broad application permitted high-income borrowers who previously would have been ineligible to qualify for loan forgiveness.[14] While the waiver ended in October 2022, it is estimated to have cost taxpayers approximately $57 billion.[15]

While intended to provide relief, the changes have the potential to undermine students' incentives to consider the cost of higher education or limit borrowing, further distorting the higher education market. The long-term result is increasing the financial burden on taxpayers, who ultimately bear the cost of unchecked forgiveness policies.

Given the program's design flaws, issues, and increasing costs, Congress should repeal the PSLF Program as part of the budget reconciliation process. According to the Congressional Budget Office (CBO), repealing PSLF would save taxpayers approximately $28 billion over the next decade.[16]

6. **End Unrelated Business Income Tax (UBIT) Loopholes.** Colleges and universities are classified as non-profit entities in the federal tax code. Yet many engage in activities, such as real estate investments, that generate profit. Congress enacted the Unrelated Business Income Tax in 1950 "to ensure that tax-exempt entities—including colleges

and universities—do not unfairly compete with taxable companies" in these "profit-generating activities."[17] However, the UBIT "loophole" that exempts profits from such sources as rents and interest means that universities, flush with cash, are able to avoid paying taxes on many for-profit activities. Because of their large endowments, today's universities have even been compared to "hedge funds with schools attached" to them. Through reconciliation, Congress should end this UBIT loophole and remove these generous exemptions.

7. **End PLUS Loans.** The 1980 reauthorization of the Higher Education Act (HEA), introduced the Parent PLUS loan, allowing parents of dependent students to borrow up to $3,000 per year at a 7 percent interest rate.[18] In 1992, Congress removed the borrowing cap, allowing parents to borrow up to the full cost of attendance, provided they passed a credit check. The Graduate PLUS loan program was introduced in 2006, enabling graduate students to borrow up to the full cost of their education.

   Research shows that nearly unlimited access to federal student aid plays a significant role in tuition inflation. For instance, studies by economists at the Federal Reserve Bank of New York found that each additional dollar in subsidized federal loans leads to a 60 cent increase in tuition.[19] With PLUS loans covering the full cost of attendance, colleges are encouraged to raise tuition rates without concern for affordability. A 2018 study by economists at the University of California at Los Angeles confirmed the inflationary effect of unrestricted borrowing through Parent PLUS loans.[20]

   The PLUS Loan program has also led to high levels of family debt. Although borrowing by undergraduates has declined, parents have increasingly turned to federal loans. The Urban Institute reports that Parent PLUS loans accounted for 23 percent of all federal loans for undergraduates, up from 14 percent in 2013.[21] Moreover, parents are borrowing higher amounts than before, and loans are often granted to borrowers who struggle to repay.[22] In fact, the average Parent PLUS Loan balance has more than quadrupled since 1994, even after adjusting for inflation.[23]

   The Graduate PLUS Loan program costs taxpayers billions annually. For every dollar lent in Graduate PLUS loans, the government spends between 31 cents and 37 cents.[24] With about $12 billion lent annually, taxpayers are responsible for up to $4.4 billion each year.[25] Graduate PLUS borrowers can also apply for income-driven repayment programs and the PSLF Program, which can lead to loan cancellation after a set period, further increasing the burden on taxpayers.

Eliminating the PLUS Loan program will help to reduce tuition costs, discourage excessive family borrowing, and open the door for private lenders to enter the student loan market. Congress should end the PLUS Loan program as part of the budget reconciliation process.

8. **Restore Accountability in Higher Education by Adopting Key Provisions of the College Cost Reduction Act (CCRA).** As part of the 118th Congress, the CCRA was introduced by Representative Virginia Foxx (R–NC), Chairwoman of the House Education and Workforce Committee. The legislation primarily seeks to amend the provisions of the HEA, though it stops short of being a full-scale reauthorization. The bill includes several policies aimed at reducing federal subsidies in higher education and enhancing taxpayer accountability. As Congress evaluates potential measures for inclusion in the budget reconciliation process, several cost-saving provisions of the CCRA deserve consideration. These include eliminating existing IDR plans in the Direct Loan program, curbing regulatory authority, imposing new limits on student loan borrowing, and revising or repealing certain regulations.

   The CCRA proposes replacing the current IDR plans with two repayment options for Direct Loans: a standard 10-year repayment plan and a new IDR plan known as the "repayment assistance plan."[26] Under the latter, borrowers would pay 10 percent of their annual income exceeding 150 percent of the federal poverty line (that means $21,870 for a single individual).[27] According to the CBO, these changes would generate cost savings of $127.3 billion over a decade.[28]

   To limit regulatory authority, the bill restricts the Department of Education from issuing regulations that would increase federal student loan costs or result in significant economic impacts. The CBO has estimated that this provision would result in cost savings of $30.3 billion over a 10-year period.[29] The legislation also introduces new caps on federal student-loan borrowing. Aggregate loan limits are set at $50,000 for undergraduate students, $100,000 for graduate students, and $150,000 for students in graduate professional programs.[30] Additionally, annual borrowing is capped at the median cost of the student's program. The bill also ends new PLUS Loans for graduate students and parents of dependent undergraduates.

The CCRA further addresses regulatory reforms by partially repealing or revising several existing rules. These include modifications to the Borrower Defense to Repayment rule and repeals to the Closed School Discharge rule and Gainful Employment and Financial Transparency rules, as well as the 90/10 rule.[31] It also streamlines the process for changes in institutional ownership by requiring colleges and universities to pay administrative fees when submitting applications for changes in control or conversions. These regulatory changes are estimated to save an additional $3.8 billion over a 10-year period.[32] In total, the CCRA outlines significant reforms designed to reduce costs, increase efficiency, and ensure greater accountability in higher education funding.

9. **Impose an Excise Tax on Contributions to Universities from Countries or Entities of Concern.** Excise taxes are levied on certain goods or services, such as the heavy highway vehicle use tax and sports betting.[33] The 2017 Tax Cuts and Jobs Act (TCJA) extended such taxes to higher education imposing a 1.4 percent excise tax on university endowments at colleges that enroll at least 500 full-time students and have a certain level of assets beyond their charitable activities.[34] At the same time, universities are currently required to report any foreign gifts in excess of $250,000 per Section 117 of the Higher Education Act of 1965. However, despite colleges and universities receiving at least $40 billion in foreign donations since 1981, Section 117 has been poorly enforced, and that figure is likely a low estimate of the true amount of foreign investment.[35]

   Foreign funding flows to colleges and universities via direct gifts to institutions, indirect gifts to nonprofits affiliated with the university, tuition payments from foreign students, revenue generated from operating U.S. campuses in foreign countries, and research grants to university professors. Foreign governments can gain access to and influence policies and programs as a result, which can create national security and other concerns when dealing with countries designated as "Countries of Particular Concern" per the U.S. Department of State.[36]

The Defending Education Transparency and Ending Rogue Regimes Engaging in Nefarious Transactions (DETERRENT) Act, which combats foreign influence in higher education by prohibiting contributions to universities from foreign adversaries and reducing the foreign funding disclosure threshold to $50,000, passed the House in late 2023. Congress should build on this and, in a manner that comports with reconciliation parameters, impose an excise tax equal to the donation on contributions to universities from Countries of Particular Concern.

10. **Impose an Excise Tax to Claw Back Grants for Indirect Costs.** Congress should also impose an excise tax on excessive indirect cost charges. Indirect costs (overhead costs) are charged to the federal taxpayer when universities secure federal research grants, which totaled $44 billion in 2019. As Heritage's Jay Greene has written, federal agencies that award research grants to universities "should not pay an indirect rate that is higher than the lowest rate that is accepted from private organizations."[37] Currently, the federal government reimburses universities for the research grant–related overhead costs at an arbitrary rate that is negotiated between a given federal agency and the university. As Greene explains, if a college receives a grant of $100,000 "with an indirect rate of 50 percent…then the federal government would pay a total of $150,000."[38] Since the federal government began funding academic research in 1946, the indirect cost reimbursement rate has ballooned from 8 percent (the initial cap) to an uncapped amount that is now as high at 70 percent at places like Stanford University.[39] Universities use this excessive funding to pad their spending on any number of leftist causes, including bloated diversity, equity, and inclusion (DEI) infrastructures. Through reconciliation, Congress should cap the indirect cost reimbursement rate by pegging it to the lowest rate that a university accepts as an indirect rate from any private research grants that it receives. This market-based mechanism would limit spending and taxpayer exposure while disciplining university spending on programs not related to its core mission.

At the same time, Congress should effectively cut excessive indirect cost charges, in a manner that comports with reconciliation parameters, by imposing an excise tax on universities that is equal to the amount of federal grants they receive for excessive indirect costs.

11. **Establish a Payroll Tax on Salaries from DEI Offices that Receive Federal Education Funds.** Many universities and institutions that receive federal education funds have significantly expanded their DEI offices, often resulting in increased administrative staffing.[40] There is growing concern that taxpayer money is being directed toward administrative bloat and DEI, rather than academic excellence, research, and student success. DEI programs and initiatives are ideologically motivated and have restricted free speech and enforced ideological conformity in hiring, curricula, and campus policies.[41] To promote greater accountability in the use of taxpayer dollars in a reconciliation-compliant manner, Congress should introduce a payroll tax on salaries associated with DEI offices or programs that promote gender ideology at any institution receiving federal funding.

Public Broadcasting Reform to Protect Taxpayers

In order to protect taxpayers, Congress should:

12. **Implement a Progressively Phased Tax on the Corporation for Public Broadcasting (CPB).** The CPB was established in 1967 as part of the Public Broadcasting Act of 1967. Federal appropriations provide Community Service Grants to some 1,500 radio and TV stations, although just 15 percent of public television (via PBS) and 10 percent of radio (NPR) revenue comes from the federal sources. Federal funding for programming geared toward children is neither the purview of the federal government nor necessary today. Free or low-cost content on YouTube, Netflix, Amazon Prime, Hulu, and dozens of other online platforms provide educational content for children and families. In a reconciliation-compliant manner, Congress should implement a gradually phased-in tax on the CPB to reduce taxpayer subsidies for news and public affairs programming. Beyond reconciliation, Congress should fully defund and dissolve the CPB.

Conclusion

By leveraging the budget reconciliation process, Congress has a unique opportunity to enact targeted education reforms that appropriately reduce federal intervention in education while also addressing inefficiencies and restoring trust in the use of taxpayer funds. Strategic measures, such as imposing an excise tax on contributions to universities from countries or entities of concern and clawing back grants for indirect costs, ensure fiscal responsibility while also safeguarding national interests. Additionally, establishing a payroll tax on salaries from DEI offices that receive federal education funds, implementing a progressively phased tax on the Corporation for Public Broadcasting, and ending Unrelated Business Income Tax loopholes demonstrate a commitment to eliminating unnecessary federal expenditures and workarounds.

These reforms also prioritize empowering families and restoring accountability in education. Making the municipal bond exclusion contingent on states adopting robust school choice laws and modernizing and expanding the DC Opportunity Scholarship Program gives parents more choices when it comes to choosing a quality education for their children. Ensuring that the School Meals Program focuses on children from low-income families makes certain that the program is restored to its original intent, while repealing the Public Service Loan Forgiveness program and ending PLUS Loans reduce unnecessary federal involvement in higher education that only encourage higher tuition and more student debt. Further, adopting key provisions of the College Cost Reduction Act will restore accountability in higher education, increase efficiency, and reduce costs.

Together, these measures provide a clear path for Congress to oversee more effective, limited, and targeted federal spending in education. By implementing these reforms, Congress will better serve families and students and advance a more responsible approach to federal education policy.

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