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. Accordingly, 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 $340.0 billion in gross outlays during FY 2017 was 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 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, institutionally (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 ***2017 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.

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 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 the major offices/programs applicable to this section are described below:

Federal Student Aid. Federal Student Aid is the part of the Department that administers need-based financial assistance programs for students pursuing postsecondary education and makes federal grants, direct loans, guaranteed loans and work-study funding available to eligible undergraduate and graduate students.

Federal Student Aid's programs link the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

Direct Loan Subsidy. The William D. Ford Federal Direct Loan (Direct Loan) program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of Treasury.

Federal Family Education Loan (FFEL) Program Subsidy. The FFEL Loan program has originated no new loans since June 30, 2010; however, its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay interest supplements on outstanding loans by private lenders to eligible students. The FFEL Loan program expenses include the Loan Participation Purchase, Loan Purchase Commitment, and ABCP Conduit expenses.

Perkins Loans, Pell and Other Grants. Perkins Loan and Grant programs include the Pell Grant program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student's school account or pay the student directly once per term.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program. The TEACH Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans. The President's Budget proposes to overhaul the TEACH Grant program, and replace it with a new, targeted teacher recruitment and retention program called the Presidential Teaching Fellows. This new program would provide grants to states that meet certain conditions to supply scholarships of up to $10,000 to talented individuals attending the most effective programs in the state. These individuals would commit to teaching for at least three years in a high-need school and subject. To be eligible for funds, states would measure the effectiveness of their teacher preparation programs based on the student achievement data of their graduates among other measures; hold teacher preparation programs accountable for results; and upgrade licensure and certification standards.

Office of Elementary and Secondary Education (OESE). OESE promotes academic excellence, enhances educational opportunities and equity for all of America's children and families, and improves quality of teaching and learning by providing leadership, technical assistance and financial support.

Office of Special Education and Rehabilitative Services (OSERS). OSERS is committed to the broad values of Inclusion, Equity and Opportunity for infants, toddlers, children, youth, and adults with disabilities to actively participate in all aspects of life. OSERS promotes inclusion, ensures equity and creates opportunity as it strives to improve results and outcomes for children and adults with disabilities. By providing funding to programs that serve infants, toddlers, children, and adults with disabilities, OSERS works to ensure that these individuals are fully included in school, in employment, and in life. OSERS also provides funds to programs that offer information and technical assistance to parents of infants, toddlers and children with disabilities, as well as members of the learning community who serve these individuals.

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.

PROGRAM OUTCOMES

Favorable results in the various programs administered by the Department can be interpreted in many ways. 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's degree. This often final stepping stone in one's educational career correlates strongly with wage and/or salary increases 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.

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

Table 2. Summary of Human Capital Expenses
(Dollars in Millions)

	2017	2016	2015	2014	2013
FEDERAL STUDENT AID EXPENSE					
Direct Loan Subsidy	$ 5,329	$ 16,119	$ (892)	$ 8,126	$ (39,557)
Federal Family Education Loan Program Subsidy	3,411	10,234	(3,856)	(6,585)	(8,753)
Perkins Loans, Pell and Other Grants	28,770	30,671	31,400	33,098	33,542
Program Operational Costs	224	308	242	206	222
Subtotal	**37,734**	**57,332**	**26,894**	**34,845**	**(14,546)**
DEPARTMENTAL PROGRAMS					
Elementary and Secondary Education	22,420	22,155	22,146	22,832	22,221
Special Education and Rehabilitative Services	16,294	15,944	15,751	15,948	15,919
American Recovery and Reinvestment Act and Education Jobs Fund	-	-	-	-	2,623
Other Departmental Programs	6,565	6,349	6,494	6,938	6,175
Program Operational Costs	419	625	511	667	703
Subtotal	**45,698**	**45,073**	**44,902**	**46,385**	**47,641**
Grand Total	**$ 83,432**	**$ 102,405**	**$ 71,796**	**$ 81,230**	**$ 33,095**

Figure 13. Federal Student Aid Investments in Human Capital, FY 2017

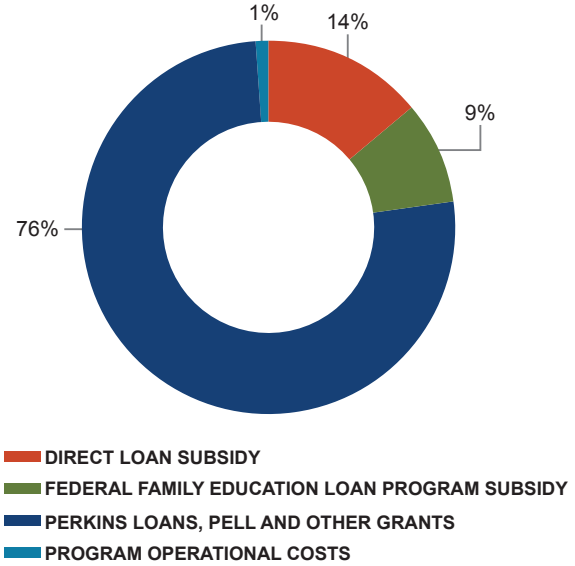
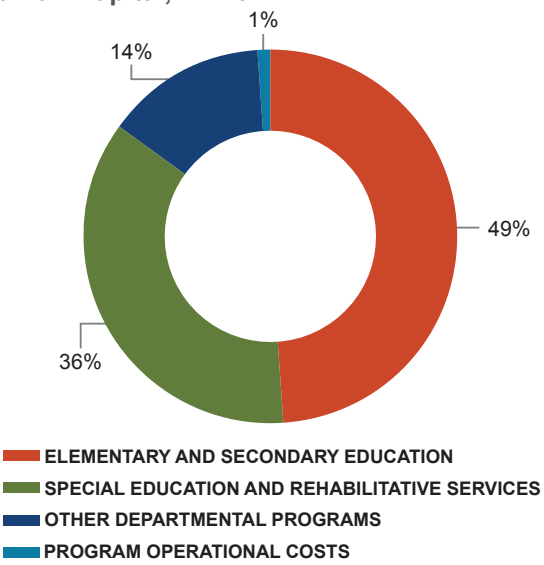


Figure 14. Departmental Program Investments in Human Capital, FY 2017



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 2014 cohort of borrowers entering repayment were released at the end of FY 2017. Of the 5.0 million borrowers entering repayment from October 1, 2013, to September 30, 2014, 581,000 defaulted on their loan before September 30, 2016. This borrower default rate of 11.5 percent across all institution types showed an increase from the prior year rate of 11.3 percent for the 2013 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.