

## ISSUE BRIEF

# SUMMARY AND ANALYSIS OF PRESIDENT OBAMA'S EDUCATION BUDGET REQUEST

## Fiscal Year 2013

### FEDERAL EDUCATION BUDGET PROJECT, EDUCATION POLICY PROGRAM

FEBRUARY 2012

President Barack Obama submitted his fourth budget request to Congress on February 13th, 2012. The detailed budget request includes proposed funding levels for federal programs and agencies in aggregate for the upcoming ten fiscal years, and specific fiscal year 2013 funding levels for individual programs subject to appropriations. Congress will use the president's budget request to inform its consideration of tax and spending legislation later this year, including the fiscal year 2013 appropriations bill that will set specific funding levels for federal education programs. Fiscal year 2013 begins October 1, 2012.

In August of 2011, Congress signed the Budget Control Act which set appropriations funding limits for 2013 at \$1.047 trillion (excludes funding for overseas military operations, emergencies, and other adjustments). This is \$4 billion above enacted 2012 appropriations. That law also established a congressional committee to draft legislation that would reduce the deficit over nine years. The committee failed to meet its goals last year, triggering a pending "sequester" (across-the-board spending cuts) of the yet-to-be enacted fiscal year 2013 appropriations. While the pending sequester is scheduled under current law, the president's fiscal year 2013 budget request proposes that

Congress pass legislation to turn it off, maintaining the appropriations funding limit of \$1.047 trillion for fiscal year 2013.

Despite the minimal increase in total appropriations funding allowed under the Budget Control Act (pre-sequestration), the administration has proposed an overall increase for education programs for fiscal year 2013. In fact, under the president's proposal, the U.S. Department of Education would receive the largest increase (in absolute terms) in discretionary funding from fiscal year 2012 levels compared to any other non-security domestic agency.

The administration has proposed a \$69.8 billion budget for education programs subject to the annual appropriations process, up from \$68.1 billion in 2012. The increase is due to moderate funding increases for several programs, including Race to the Top, Work-Study grants, and the Teacher Incentive Fund. Other key programs, such as Title I Part A grants to local educational agencies, Individuals with Disabilities Education Act Part B grants to states, and Pell Grants would be funded at 2012 levels. In addition, the president is requesting \$62.9 billion in fiscal year 2012 for education stimulus spending under his American Jobs Act

proposal outlined in 2011. This funding is proposed in addition to the enacted fiscal year 2012 appropriations totaling \$68.1 billion for the Department of Education.

This issue brief provides a summary and analysis of the president's fiscal year 2013 education budget request.

## PreK-12 Education

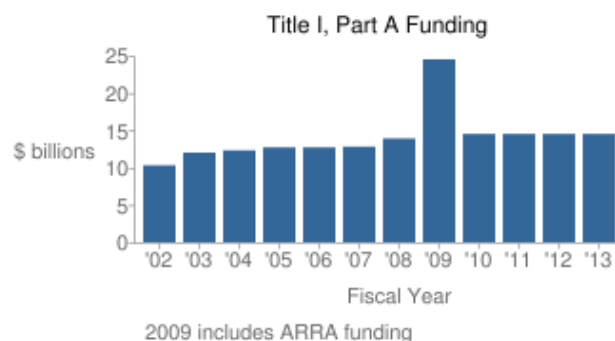
### Early Education

- The president's budget request includes \$1.2 billion for the 21st Century Community Learning Centers program, level funding from fiscal year 2012. However, the program, which has typically funded only enrichment programs outside the school day, would be expanded to allow districts to lengthen the number of hours in the school day. The proposal doesn't specify whether the funds could be used to extend kindergarten classes from half-day to full-day or to lengthen pre-kindergarten programs in public schools, but the expanded definition could provide an additional opportunity to offer more extensive early education programs.

### Elementary and Secondary Education Act Title I

- The fiscal year 2012 budget request includes \$14.5 billion for Elementary and Secondary Education Act (ESEA) Title I, Part A grants to local education agencies (LEAs), the same as in 2012. The budget request reflects the administration's proposed Elementary and Secondary Education Act reauthorization legislation that would rename Title I, Part A "College- and Career-Ready Students" and make several changes to how schools are assessed under the program. For example, the proposed changes would eliminate "Adequate Yearly Progress" and would require states to assess school district and school "progress in ensuring students are meeting or on-track to meet college- and career-ready standards. The president also mentions providing states and school districts with flexibility over the use of funds intended for

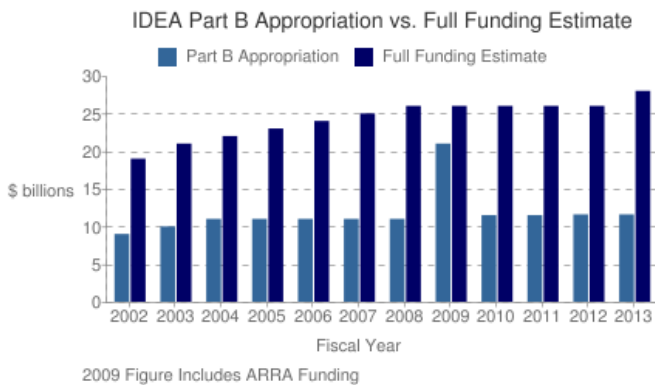
supplemental education services, school choice, and professional development. However, the documentation provides few details.



- Title I School Improvement Grants (SIG), a separate funding stream specifically for reform activities in schools identified as in need of improvement, would receive \$534 million, the same as in 2012. The president's proposal would rename the program School Turnaround Grants and require states to use one of four intervention models during the turnaround process in the bottom 5 percent of schools or in high schools with graduation rates below 60 percent, as is currently the case for the SIG funds distributed through the American Recovery and Reinvestment Act of 2009 (ARRA).

### Special Education

- The president's fiscal year 2013 budget request would provide \$11.6 billion for special education grants to states under Part B of the Individuals with Disabilities Education Act (IDEA), the same as 2012 levels. According to IDEA law, full funding for the program is 40 percent of the additional cost of educating special education students. In fiscal year 2013, this is approximately \$28 billion. Preschool grants would receive funding at 2012 levels, while grants for infants and families would receive a \$20 million increase in funding to \$463 million.



## Innovation and Other Initiatives

- The 2013 budget request includes \$850 million to expand the Race to the Top program created by the American Recovery and Reinvestment Act of 2009 (ARRA). The program provides competitive grants to states to implement innovative practices that address teacher distribution, the use of student data, the quality of standards and assessments, and supports for struggling schools. In 2012, Congress extended the Race to the Top competition beyond states to school districts. This new funding would extend the program into 2013 and include both an Early Learning Challenge component and a K-12 component, likely with a strong focus on science, math, engineering, and technology (STEM) education.
- The president's fiscal year 2013 budget request includes \$150 million in funding for the Investing in Innovation (i3) Fund created by the ARRA. These funds provide competitive grants to support local education agencies (LEAs) and partnerships that have demonstrated progress in improving student achievement. Funds can be used to study, expand, or scale up current efforts. Additionally, the budget request would allocate some of the i3 funds to a new Advanced Research Projects in Agency-Education (ARPA-ED) program that would support the development of new educational technology.
- Like the president's 2011 and 2012 budget requests, the 2013 request consolidates several existing education programs that support innovation. New programs under

the consolidation include a \$255 million Expanding Education Options program that would provide funding for charter schools and other school choice measures and an \$81 million College Pathways and Accelerated Learning program to increase high school graduation rates.

## New Programs Created by Proposed ESEA Consolidation (\$ millions)

### Excellent Instructional Teams

Effective Teachers and Leaders	2,467
Teacher and Leader Innovation Fund	400
Teacher and Leader Pathways	75

### Effective Teaching and Learning for a Complete Education

Effective Teaching and Learning: Literacy	187
Effective Teaching and Learning: Science, Technology, Engineering, and Mathematics	150
Effective Teaching and Learning for a Well-Rounded Education	90

### Expanding Educational Options

### College Pathways and Accelerated Learning

### Supporting Student Success

Successful, Safe and Healthy Students	196
<b>Total Consolidated Program Funding</b>	<b>4,900</b>
<b>Pre-Consolidation 2012 Program Funding</b>	<b>4,451</b>

Source: U.S. Department of Education

- Other program consolidations included in the 2013 budget request focus on improving instruction and learning under certain subject areas. These consolidations would result in three new larger programs. A \$187 million Effective Teaching and Learning: Literacy program would combine several existing literacy programs, including Striving Readers, to provide competitive grants to states to implement comprehensive efforts to improve literacy. A \$150 million Effective Teaching and Learning: Science, Technology, Engineering, and Mathematics (STEM) program would provide competitive grants to states to improve STEM

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instruction. Finally, a \$90 million Effective Teaching and Learning for a Well-Rounded Education program would provide competitive grants to states to strengthen instruction in subjects beyond math and literacy. The president also proposed these consolidations in his 2012 budget request but with higher funding levels.

- The 2013 budget request includes a \$40 million increase from the fiscal year 2012 funding level for the Promise Neighborhoods program, bringing total funding up to \$100 million. This program provides competitive grants to non-profit organizations to open comprehensive education programs like the Harlem Children's Zone in New York City.
- The budget request would increase the Institute of Education Science's budget by \$27 million over the 2012 funding level to \$621 million in 2013. This increase is primarily attributable to a \$12 million increase for Research, Development, and Dissemination, and a \$15 million increase for Statewide Data Systems grants. These funds would go to support more rigorous evaluations of current Department of Education programs and the improvement of state data systems and usage.

## Teachers and School Leadership

- The president's 2013 budget request consolidates several existing teacher and school administration programs into three larger programs under a new Excellent Instructional Teams umbrella. These programs include \$2.5 billion for an Effective Teachers and Leaders State Grants program, \$400 million for a new Teacher and Leader Innovation Fund, and \$75 million for a new Teacher and Leader Pathways program. Each program would support formula or competitive grants to states or local education agencies to improve teacher recruitment, distribution, and retention. This consolidation is part of the president's ESEA reauthorization proposal.

- The president's request includes setting aside 25 percent of funds under the Effective Teachers and Leaders State Grants program (currently known as the Improving Teacher Quality State Grant program) specifically to recruit, train and support teachers and leaders. This would also include a focus on teachers of science, technology, engineering, and mathematics (STEM). Because this formula grant program is typically used to support professional development and class-size reduction, the proposed set-aside could have a large impact on how districts use the funds.
- The president's budget proposal would provide \$400 million, \$100 million over 2012 levels, for the Teacher Incentive Fund (TIF) and would rename the program the Teacher and Leader Innovation Fund. TIF is a competitive grant program to help school districts implement performance-based compensation systems, improve evaluations, and support school improvement.

## Other

- The president's 2013 budget request includes a change to the Impact Aid program that would eliminate payments that school districts receive for federal property. The Impact Aid program provides federal funding to school districts that serve a substantial number of federally-connected students such as those who live on military bases, in public housing, or on Bureau of Indian Affairs land. The administration justifies the change because the funds for federal property are not actually connected to students living on that property. As a result, these funds do not necessarily go to actually provide services to federally-connected students. The change would save \$67 million.
- The president's budget request includes language to reauthorize the Carl D. Perkins Career and Technical Education Act of 2006 that would improve the alignment between secondary and postsecondary programs and business and industry. It would also

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provide incentives for innovation in career and technical education, implement a better accountability system, and improve research and evaluation of career and technical education programs. The president's budget would flat-fund career and technical education programs at 2012 levels of \$1.1 billion.

- The president's proposal includes \$62.9 billion over fiscal years 2012 and 2013 in new funds for education under the American Jobs Act, a bill he originally proposed in 2011. The bill would provide \$30.0 billion in funds for K-12 and community college school construction, \$25.0 billion in funds to help states maintain K-12 education jobs similar to the Education Jobs Fund, and \$5.0 billion to implement reforms to strengthen the teaching profession. The funds under the teacher program could be used for a variety of activities, including reforming schools of education or re-working teacher tenure plans.

## Higher Education

### New Initiatives

- In his 2013 budget request, the president proposes a new \$1.0 billion Race to the Top: College Affordability and Completion program. Modeled after the existing K-12 Race to the Top grant program, the new program would provide competitive grants to states that commit to improving college affordability and quality by increasing investments, stabilizing tuition costs, aligning K-12 and higher education standards, and using data to measure institutional success. States could use the funds to implement such reforms, improve their curricula, or explore new ways to measure learning in higher education. Initial grants would be available to up to five states.
- The president's budget request would create a new \$56 million program under the Fund for the Improvement of Postsecondary Education (FIPSE) called the First in the

World initiative. The program, based on the K-12 Investing in Innovation fund, would provide competitive grants to institutions of higher education to develop, validate, or scale up innovations aimed at lowering the costs of and improving the quality of higher education. The program would make \$20 million available specifically for Minority Serving Institutions.

- The president's budget request proposes a Community College Initiative administered jointly by the Departments of Education and Labor that would provide \$8 billion over three years for job training programs built on partnerships among states, community colleges, and private sector organizations. This funding, provided under the American Jobs Act rather than through annual appropriations, would be in addition to the funding for community colleges provided through grants from the Trade Adjustment Assistance Community College and Career Training Program. Additionally, the administration has proposed \$200 million in 2013 for a Career Academies program under the American Jobs Act that would provide students enrolled in postsecondary education with internships and other job training. Total requested funding would be \$1.0 billion over five years.

### Teacher Education

- In the president's budget request, the Department of Education would replace the TEACH Grant program with a new Presidential Teaching Fellows grant program. The TEACH Grant program, is funded as an on-going entitlement program and does not require annual appropriations. In 2012, the program provided \$41 million in grant aid and loan subsidies directly to postsecondary students who are training to become teachers. Grants of up to \$4,000 per year are available for bachelor's studies or \$8,000 total for master's studies for tuition, fees, and other housing costs. Students must commit to teaching high-need subjects in low-income schools after completing their postsecondary education. However, as many as three-quarters of TEACH Grant

recipients fail to complete their service requirements. To address this issue, the president's proposal ends the TEACH Grant program and replaces it with the Presidential Teaching Fellows program. The new program would provide \$190 million a year in formula grants to states for scholarships that would be awarded to talented students in successful teacher education programs. The funds would be equally available to students in traditional and alternative certification programs. States must agree to measure the performance of their teaching institutions, hold less successful programs accountable, and improve licensure and certification standards to be eligible for the funds.

## Pell Grants

- The president's 2013 budget request would fund a maximum Pell Grant of \$5,635 for the 2013-14 school year. That is an \$85 increase over the prior year and the first increase since 2010. The Pell Grant program provides grant aid to help cover the cost of higher education for students from low-income families. To support the \$5,635 maximum grant level, the budget request includes a \$22.8 billion regular appropriation for fiscal year 2013, the same level enacted for fiscal year 2012. In addition to the regular appropriation, supplemental funding already provided in current law will support the program in fiscal year 2013. This includes a combined \$7.6 billion that Congress provided in the Budget Control Act of 2011 and the fiscal year 2012 appropriations law. Congress made this funding available after eliminating the interest-free benefit on Subsidized Stafford loans for graduate students and temporarily suspending that benefit for undergraduate borrowers during the six-month repayment grace period. Also, recent estimates show that the Pell Grant program has been overfunded in past years by \$2.0 billion, which is "booked" this year to offset current funding needs. Together these funding sources account for \$4,860 of the \$5,635 maximum grant in the president's budget proposal.

- The Pell Grant program will also be supported by an additional \$5.7 billion in 2013 provided under an existing entitlement formula that is automatically funded and does not require an appropriation. This funding source has provided \$690 toward the maximum Pell Grant in recent years. Current law, however, states that the funding source will provide a scheduled inflationary increase in 2013, funding \$775 of the \$5,635 maximum grant in the president's request. This scheduled increase accounts for the total increase in the maximum grant in fiscal year 2013.

### Pell Grant Funding and Maximum Grant (\$ billions by fiscal year)

Funding By Source	2011	2012	2013
Regular appropriation*	23.0	22.8	22.8
SAFRA**	2.8	--	--
Elimination of year-round grants	3.2	--	--
Budget Control Act	2.5	7.5	7.0
2012 loan grace period elimination/other	--	0.6	0.6
Entitlement formula	5.3	5.3	5.7
<b>Total Funding</b>	<b>36.8</b>	<b>36.2</b>	<b>36.1</b>

Max. Grant	2011	2012	2013
Appropriation	\$4,860	\$4,860	\$4,860
Entitlement formula	\$690	\$690	\$775
<b>Total</b>	<b>\$5,550</b>	<b>\$5,550</b>	<b>\$5,635</b>

\*2013 appropriation is the president's requested level. Amount is lower than what is needed to fund the maximum grant because \$2.0 billion in overfunding from prior years is counted as available funding for fiscal year 2013.

\*\*SAFRA is the 2010 Student Aid and Fiscal Responsibility Act. The law provided \$13.5 billion in one-time funding for Pell Grants; some of that funding was used in fiscal year 2011.

Source: U.S. Department of Education, Congressional Budget Office, New America Foundation

- The president's budget request for fiscal year 2013 also includes a number of cost-saving policies that would offset approximately \$9.0 billion in supplemental funding for the Pell Grant program in fiscal year 2014.



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Without this new source of supplemental funding, Congress would need to provide a \$30.0 billion regular appropriation for the program in fiscal year 2014 to maintain the maximum grant and eligibility rules. However, lawmakers are unlikely to provide such a large increase in the annual appropriation. These cost-saving policies include a new Perkins Loan program, a reduction in fees paid to guaranty agencies that administer the defunct guaranteed student loan program, and a limitation on the in-school interest-free benefit on Subsidized Stafford loans for undergraduates. These proposals are discussed below.

## Student Loans

- The president's budget request for fiscal year 2013 would make changes to the Perkins Loan program similar to the proposal included in his past three budget requests. Colleges and universities provide Perkins loans to college students with greater financial need. Currently, the federal government provides loan capital via a formula to institutions of higher education that manage the funds as a revolving pool of loans. In fiscal year 2012, the program provided \$971 million in low-interest loans to approximately 500,000 students. Under the president's budget request, available loan funds would increase to \$8.5 billion in 2013, significantly increasing the number of recipients. The federal government would make the loans directly to students instead of funding a revolving loan pool at individual schools. Schools, however, would still play a role in determining which lower-income students receive loans. Only schools that meet affordability and value criteria could participate in the program (see campus-based aid section below for more information). Loans would carry identical terms as Unsubsidized Stafford loans. The president's budget estimates that the program would earn \$8.9 billion over the next ten years through interest charged to borrowers. These earnings would help fund supplemental funding for Pell Grants in fiscal year 2014.
- The president's budget request for fiscal year 2013 would reduce the fees that guaranty agencies under the now-defunct Federal Family Education Loan program collect. Congress ended that loan program in 2010, but non-profit and state-affiliated guaranty agencies still oversee some \$300 billion in outstanding loans made before the program was discontinued. The Department of Education pays these agencies fees to collect loans in default or return the loans to repayment status (i.e. rehabilitate). Under current law, the agencies earn a fee of 18.5 percent of the value of the defaulted loan when the loan is rehabilitated. The president's proposal argues that this fee is "excessive" and provides non-profit lenders affiliated with a guaranty agency an incentive to let borrowers default on their loans so that the loan can be rehabilitated. The proposal reduces the fee to 16 percent. It also requires guaranty agencies to turn rehabilitated loans over to the Department of Education if the guaranty agency is unable to find a buyer for the loan. This proposal would save \$3.4 billion in fiscal year 2013 which the president's budget would allocate to support the fiscal year 2014 Pell Grant program.
- The president's fiscal year 2013 budget would limit the interest-free benefit on Subsidized Stafford loans. Currently, Subsidized Stafford loans available to lower and middle-income borrowers do not accrue interest while the borrower is in school. The president's budget would eliminate this benefit for students who take longer than 150 percent of the time needed to complete their programs of study. The proposal aims to encourage students to complete their studies on time. If enacted, the change would save \$800 million over five years and \$1.8 billion over ten years. These funds would be reallocated to the fiscal year 2014 Pell Grant program.
- In 2007 Congress enacted a series of interest rate reductions for undergraduate borrowers who qualified for Subsidized Stafford loans. The fourth phase of the rate cut took effect for loans issued in the 2011-12 school year. Subsidized Stafford loans issued to undergraduates

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that year carry an interest rate of 3.4 percent, compared to 6.8 percent charged on Unsubsidized Stafford loans. Under the 2007 law, the interest rate charged on loans issued after the 2011-12 school year reverts to a fixed rate of 6.8 percent. The president's fiscal year 2013 budget request would maintain the 3.4 percent rate for newly-issued loans for one additional year. This proposal would cost \$3.9 billion.

## Campus-Based Aid

- In addition to the student loan and Pell Grant programs, the federal government provides a more limited amount of student aid to individual institutions of higher education. Schools use these funds to distribute aid to eligible students. Funding for these campus-based aid programs, which include Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study, and the Perkins Loan program, is allocated by formula in law. The president's budget request criticizes this formula as "antiquated" and argues that limited funding and hold-harmless provisions allocate funding in ways that do not account for student need, outcomes, or relative value. The president's 2013 budget proposes changing this formula so that it distributes aid to institutions based on new criteria. Recipient institutions must enroll and graduate relatively high numbers of low-income students, offer lower tuition prices, and restrain tuition growth. Their students must also obtain employment and graduate with manageable levels of debt. Schools that fail to meet these standards would lose aid to better-performing institutions.
- The president's fiscal year 2013 budget proposes \$735 million for the Supplemental Educational Opportunity Grant (SEOG), the same level as enacted fiscal year 2012 funding. For the Work-Study program, the president proposes \$1.1 billion, an increase over the 2012 level of \$977 million. The increase would support a new Work-Study program that would align student employment opportunities with students' studies and career goals.

Both SEOG and Work-Study would continue to require that institutions match 25 percent of the federal funding they receive.

## Tax Benefits

- In 2009 Congress enacted the American Opportunity Tax Credit (AOTC) to replace the HOPE Scholarship Tax Credit, allowing more individuals to qualify for larger credits to cover the cost of higher education. The AOTC provides a credit of up to \$2,500, of which up to \$1,000 is refundable (100 percent of the first \$2,000 spent on higher education; 25 percent of the next \$2,000) and can be claimed for the first four years of post-secondary, degree-seeking education. Eligibility is based on an inflation-adjusted income ceiling of \$90,000 (\$180,000 for joint filers). The refundable portion of the credit allows beneficiaries who have no tax liability to receive a payment from the federal government of up to \$1,000. The AOTC was originally scheduled to expire after 2010, but Congress extended it for two additional tax years. Under current law, it will expire after 2012. The president's fiscal year 2013 budget request would make the AOTC permanent. The proposal would cost approximately \$7.9 billion per year in forgone revenue.
- Current law treats the amount of loan forgiveness a borrower receives after 25 years in the Income-Based and Income-Contingent Repayment plans as taxable income. The president's fiscal year 2013 budget request proposes excluding loan forgiveness funds from an individual's taxable income.

## Program Cuts and Eliminations

- The president's 2013 budget request would fold the \$11 million Model Transition Programs for Students with Disabilities into Higher Education program into the Fund for the Improvement of Postsecondary Education. The program would remain otherwise unchanged.



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- The budget request would also consolidate three smaller programs under the Vocational Rehabilitation program into the larger state grant program. However, this does not produce any savings – the consolidation would cost an additional \$10 million.
  - The president’s budget request includes a series of program consolidations under the Elementary and

Secondary Education Act. These consolidations would take 38 existing programs and collapse them into 11 new and more streamlined programs. These new programs would administer either competitive or formula-based grants to improve teaching, learning, and student safety. However, these consolidations would not result in savings over 2012 levels. In fact, the consolidated programs would cost an additional \$449 million.

## Discretionary Education Funding in President Obama's Fiscal Year 2013 Budget Request Compared to Enacted 2012 Levels (\$ millions)

PreK-12 Education			
Program	2012*	2013 Request	Change (%)
Title I, Part A Grants to LEAs	14,516	14,516	0
Individuals with Disabilities Education Act Part B	11,578	11,578	0
Effective Teachers & Leaders (Improving Teacher Quality) State Grants	2,467	2,467	0
Supporting Student Success (Inc. Promise Neighborhoods)	1,407	1,448	3
Impact Aid Basic Support Payments	1,154	1,154	0
Career and Technical Education and Tech Prep	1,131	1,131	0
Race to the Top	549	850	55
English Learner Education	732	732	0
School Improvement (Turnaround) Grants	534	534	0
Effective Teaching and Learning for a Complete Education	362	427	18
Teacher & Leader Innovation (Teacher Incentive) Fund	299	400	34
Assessing Achievement	389	389	0
Research, Development, and Dissemination	190	202	7
Investing in Innovation	149	150	0
Promise Neighborhoods	60	100	67
Statewide Data Systems	38	53	39

Higher Education			
Program	2012*	2013 Request	Change (%)
Pell Grants **	22,824	22,824	0
Work-Study	977	1,127	15
Race to the Top: College Affordability & Completion	N/A	1,000	N/A
TRIO Programs	840	840	0
Supplemental Educational Opportunity Grants	735	735	0
GEAR UP	302	302	0
Fund for the Improvement of Postsecondary Education	2	70	2,859
First in the World	N/A	56	N/A
<b>All Other Education Programs</b>	<b>7,111</b>	<b>6,203</b>	<b>1</b>
<b>Total, Department of Education</b>	<b>68,112</b>	<b>69,833</b>	<b>4</b>

\* Reflects appropriated amount minus 0.189 percent across-the-board rescission.

\*\* Reflects the regular annual appropriation only; excludes funds from other sources. See table on page 6 of this document for a comprehensive list of funding. □

American Jobs Act		
Program	2012 Request	2013 Request
School Modernization	30,000	N/A
Teacher Stabilization	25,000	N/A
Strengthening the Teaching Profession	5,000	N/A
Community College Initiative	1,333	1,333
Career Academies	N/A	200
<b>Total, American Jobs Act</b>	<b>61,333</b>	<b>1,533</b>

Source: U.S. Department of Education



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