



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 8, 2010

### **H.R. 6497** **Development, Relief, and Education for Alien Minors Act of 2010**

*As introduced on December 7, 2010*

#### **SUMMARY**

H.R. 6497 would authorize the Secretary of Homeland Security to grant conditional nonimmigrant status to certain unauthorized residents in the country. Individuals with conditional nonimmigrant status could lawfully live and work in the United States and would be eligible for some refundable tax credits, Social Security, and Medicare benefits, assuming they met other program requirements. In addition, the bill would make conditional nonimmigrants eligible for federal student loans.

H.R. 6497 would affect federal revenues in a number of ways. The increase in authorized workers would affect individual and corporate income taxes, as well as social insurance taxes. On balance, those changes would increase revenues by \$1.7 billion over 10 years, according to estimates provided by the staff of the Joint Committee on Taxation (JCT). Newly authorized workers also would be eligible for some refundable tax credits (included in the spending total below).

CBO estimates that enacting H.R. 6497 would decrease net direct spending by about \$500 million over the 2011-2020 period. That amount reflects changes in spending for refundable tax credits, Social Security, Medicare, student loans, and the Department of Homeland Security (DHS). DHS would charge individuals fees to certify their legal status under the bill. The department's costs to implement the bill would be covered by those fees. Under the proposal, DHS also would impose a surcharge on individuals seeking to obtain or renew their conditional nonimmigrant status. DHS would not be authorized to spend those surcharges. CBO has not completed an estimate of the legislation's potential effects on discretionary spending, but any such effects would probably be small.

Pay-as-you-go procedures apply to H.R. 6497 because enacting the legislation would affect direct spending and revenues. CBO and JCT estimate that enacting the bill would reduce deficits by about \$2.2 billion over the 2011-2020 period. That result reflects a decrease in on-budget deficits of \$4 million over that period and a decrease in off-budget

deficits of about \$2.2 billion over the same period. Only the on-budget effects are counted for purposes of enforcing the Statutory Pay-As-You-Go Act of 2010.

Although the legislation would reduce the unified budget deficit over the 2011-2020 period, the eventual conversion of some of the conditional nonimmigrants to legal permanent resident (LPR) status after 2020 would lead to significant increases in spending for the federal health insurance exchanges, Medicaid, and the Supplemental Nutrition Assistance Program (SNAP).

This bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). Some state and local colleges and universities may experience increased enrollment as a result of this bill, but any associated costs would not result from intergovernmental mandates. H.R. 6497 also contains no private-sector mandates as defined in UMRA.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 6497 is shown in the following table. The costs of this legislation fall within budget functions 500 (education, training, employment, and social services), 570 (Medicare), 600 (income security), 650 (Social Security), and 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
<b>CHANGES IN REVENUES</b>												
Estimated Revenues	0	181	169	169	215	255	164	191	186	203	734	1,733
<b>CHANGES IN DIRECT SPENDING</b>												
Estimated Budget Authority	0	-189	-67	-13	67	80	-225	-103	-72	39	-202	-482
Estimated Outlays	0	-240	-48	-7	82	80	-246	-94	-70	47	-213	-495
<b>NET CHANGE IN THE BUDGET DEFICIT FROM CHANGES IN REVENUES AND DIRECT SPENDING</b>												
Impact on the Deficit <sup>a</sup>	0	-421	-217	-176	-133	-175	-410	-285	-256	-156	-947	-2,228
On-Budget	0	-323	-20	78	160	155	-113	-20	-9	88	-105	-4
Off-Budget	0	-98	-197	-254	-293	-330	-297	-265	-247	-244	-841	-2,225

Note: Components may not sum to totals because of rounding.

a. Positive numbers indicate increases in deficits; negative numbers indicate decreases in deficits.

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that the bill will be enacted by January 1, 2011.

Under the bill, unauthorized residents could qualify for conditional nonimmigrant status if they:

- Were less than 16 years of age when they entered the country,
- Lived in the United States for at least five years prior to the bill's enactment,
- Are high school graduates or high school students who have been admitted to an institution of higher education or have a general education development (GED) certificate, and
- Meet other requirements.

The initial conditional nonimmigrant status available under the bill would be valid for a period of five years. After those initial five years, individuals could apply for a single five-year extension. Individuals would be eligible for such an extension if they had earned a degree from an institution of higher education, completed at least two years toward a bachelor's (or higher) degree, or served at least two years in the military, and had met other standards. After completing the second five years, individuals who met the criteria for the five-year extension could have their status adjusted from conditional nonimmigrant to LPR status.

In 2020, CBO estimates that the number of residents with conditional nonimmigrant status would total about 700,000 people. That number reflects the likelihood that many people who obtain the initial five-year status would not meet the requirements for renewing their legal status for a second five years. Individuals with conditional nonimmigrant status could lawfully live and work in the United States and would be eligible for certain tax credits, Social Security, Medicare, and federal student loans. However, to be eligible for most other federal benefits, individuals must be legal permanent residents. None of those individuals receiving conditional nonimmigrant status could obtain LPR status before 2021.

## **Revenues**

Because some currently unauthorized workers would become authorized workers under the bill, JCT anticipates that H.R. 6497 would lead to increased reporting of employment income, which would add to receipts from both social insurance taxes (a portion of which would be recorded as off-budget revenues) and individual income taxes. However, the reporting of that income also would result in larger tax deductions by businesses for their

labor compensation, which would reduce their profits. Because businesses operate in both corporate and noncorporate form, those deductions would reduce both corporate and individual income tax receipts, offsetting some of the increases discussed above. In addition, some of the revenue increases would be offset because some currently unauthorized workers who have income taxes withheld would file tax returns and claim refunds. Furthermore, because those workers would be able to work legally in the country, they would become eligible for many of the tax-reducing provisions available to workers with children, including the dependent exemption, child tax credit, earned income credit, and head-of-household filing status. Application of those provisions would either reduce income taxes or increase outlays from refundable tax credits. In total, JCT estimates that H.R. 6497 would increase revenues by \$1.7 billion over the 2011-2020 period.

### **Direct Spending**

**Refundable Tax Credits.** Staff of the JCT estimate that outlays for the refundable tax credits discussed above would increase by \$798 million over the 2011-2020 period.

**Social Security and Medicare.** By granting conditional nonimmigrant status to individuals who are currently unlawfully present in the United States, H.R. 6497 would allow those individuals to receive benefits from the Social Security and Medicare programs.

Individuals can earn eligibility for Social Security by meeting the program's age or disability criteria and by paying payroll taxes for a required period. Younger adults, for example, can meet that "quarters of coverage" requirement for the Social Security Disability Insurance (SSDI) program in as few as two years. Individuals who receive SSDI are automatically eligible for Medicare after a 24-month waiting period.

Individuals affected by H.R. 6497 would tend to be younger and healthier than the rest of the U.S. workforce. As a result, CBO expects that relatively few of the people directly affected by H.R. 6497 would qualify for Social Security and Medicare benefits during the 2011-2020 period. Based on information from the Current Population Survey, CBO projects that 1,100 people—less than 0.2 percent of the affected population—would qualify for Social Security by 2020. CBO estimates that enacting H.R. 6497 would increase Social Security outlays by \$55 million and Medicare outlays by \$25 million over the 2011-2020 period.

**Department of Homeland Security.** Under the bill, eligible individuals could apply for conditional nonimmigrant status for a five-year period and subsequently apply for an extension to keep that status for a second five-year period if they met the necessary qualifications. CBO expects that DHS would charge individuals fees to cover the cost of

processing each application. In addition, the bill would require DHS to impose a surcharge for each application.

*Application Fees.* CBO expects that DHS would charge processing fees of about \$700 per application to provide certifications of conditional nonimmigrant status, and an additional \$700 per renewal. (Those fees are classified as offsetting receipts, a credit against direct spending.) Over the 10-year period, CBO estimates that DHS would collect about \$1.1 billion in fees from individuals who would apply for legal status under the bill. The department is authorized to spend such fees without further appropriation. Spending of the fees would lag behind collections each year, so we estimate that enacting the legislation would reduce net outlays for DHS by \$13 million over the 2011-2020 period.

*Surcharges.* In addition to regular processing fees, the bill would require applicants to pay a surcharge for each application. Under the bill, those surcharges would be classified as offsetting receipts and DHS would not be able to spend those receipts. The surcharge for the application for the first five years of conditional nonimmigrant status would be \$525. The surcharge for those who apply for an extension would be \$2,000. Based on data on college enrollment and graduation rates and military enlistments, CBO expects that less than half of the individuals who would initially apply for conditional nonimmigrant status would qualify to apply for an extension to maintain that status for an additional five years. Accordingly, CBO estimates that over the 10-year period, the DHS surcharges would increase offsetting receipts and thus decrease direct spending by \$1,360 million.

**Student Loans.** H.R. 6497 would allow individuals granted conditional nonimmigrant status to participate in the federal student loan program. CBO assumes that those students would be less likely than other students to participate in the student loan program for two main reasons. First, those students are more likely to be enrolled in lower-cost community colleges where the need for financial assistance is lower. Second, they would be less willing to submit financial aid forms and expose other family members who are unlawfully present in the country. Assuming that approximately 15 percent of enrolled students obtain student loans, and based on CBO's subsidy rates for the student loan program, we estimate the bill would have a negligible effect on federal spending for student loans over the 2011-2020 period.

**Medicaid and SNAP.** CBO estimates that enacting the bill would not affect Medicaid or SNAP spending for the 2011-2020 period because individuals with conditional non-immigrant status would not be eligible for either program. Spending for Medicaid and SNAP would increase outside the 2011-2020 period for individuals who obtain LPR status and meet program eligibility requirements. Under current law, legal permanent residents are eligible, after a five-year waiting period, to enroll in SNAP, and to enroll in Medicaid if they reside in a state that elects to provide Medicaid coverage to LPRs.

**Health Insurance Exchanges.** H.R. 6497 would prohibit individuals with conditional nonimmigrant status from receiving subsidies toward health insurance purchased through health insurance exchanges. As a result, CBO estimates that the bill would not affect federal spending for premium and cost-sharing subsidies for exchange plans over the 2011-2020 period. Federal spending would increase for those subsidies after 2020 as individuals become legal permanent residents and may become eligible for exchange subsidies.

**PAY-AS-YOU-GO CONSIDERATIONS**

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

**CBO Estimate of Pay-As-You-Go Effects for H.R. 6497 as introduced on December 7, 2010**

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
<b>Increase or Decrease (-) in On-Budget Deficits</b>												
Statutory Pay-As-You-Go Impact	0	-323	-20	78	160	155	-113	-20	-9	88	-105	-4

Note: Components may not sum to totals because of rounding.

**ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS**

This bill contains no intergovernmental mandates as defined in UMRA. Some state and local colleges and universities may experience increased enrollment as a result of this bill, but any associated costs would not result from intergovernmental mandates.

**ESTIMATED IMPACT ON THE PRIVATE SECTOR**

This bill contains no private-sector mandates as defined in UMRA.

## **PREVIOUS CBO ESTIMATE**

On December 7, 2010, CBO transmitted a cost estimate for S. 3992, the Development, Relief, and Education for Alien Minors Act of 2010, as introduced on November 30, 2010. We estimated that enacting S. 3992 would reduce deficits by about \$1.3 billion over the 2011-2020 period.

Under S. 3992, conditional nonimmigrant status would be valid for 10 years, whereas conditional nonimmigrant status in H.R. 6497 would be valid for an initial period of five years, with the opportunity to extend that status for another five years if the individual meets several requirements. CBO estimates that change would result in fewer people with conditional nonimmigrant status over the 10-year period. In addition, H.R. 6497 would impose surcharges on individuals obtaining conditional nonimmigrant status and those renewing that status.

Differences in the CBO cost estimates primarily reflect those differences in the bills. In particular, the surcharges required under H.R. 6497, along with the use of two five-year periods for conditional nonimmigrant status, would lead to an estimated total reduction in deficits of \$2.2 billion over the 201-2020 period (in contrast to the estimated deficit reduction of \$1.3 billion for that period under S. 3992).

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