



September 9, 2009

Honorable John Kline
Senior Republican Member
Committee on Education and Labor
U.S. House of Representatives
Washington, DC 20515

Dear Congressman:

On July 24, 2009, the Congressional Budget Office transmitted a cost estimate for H.R. 3221, the Student Aid and Fiscal Responsibility Act, as ordered reported by the Committee on Education and Labor on July 21, 2009. For budget scoring under H. Con. Res. 85, the Concurrent Resolution on the Budget for Fiscal Year 2010, CBO estimated the cost of H.R. 3221 consistent with the assumptions underlying its March baseline. Relative to the March baseline, CBO estimates that the provisions in H.R. 3221 related to the Federal Pell Grant Program would increase direct spending by \$39.4 billion and discretionary spending by \$6.3 billion over the 2010-2019 period.

In your letter of August 28, 2009, you requested that CBO provide an estimate of the impact of those provisions on direct and discretionary spending relative to CBO's August baseline, which was released on August 25, 2009. That estimate is provided below. However, the August baseline is not used for Congressional scorekeeping purposes because the Congressional budget resolution is enforced using estimates consistent with the baseline that underlies that resolution. As a result, CBO's July 24 estimate remains the basis for Congressional budget enforcement procedures.

Changes to the Pell Grant Program in H.R. 3221

H.R. 3221 would increase federal spending by making the following changes to the Federal Pell Grant Program:

- **Amend the current mandatory program.** Under current law, Pell grants are funded with both discretionary and mandatory funds. The bill would change the procedure for calculating the amount of mandatory funding for Pell grants beginning in fiscal year 2011. For each year, the bill would appropriate such sums as may be necessary to increase the mandatory award from the previous year. The increase in the mandatory award would be determined by inflating the previous year's total award level by the change in the Consumer Price Index (CPI) plus 1 percentage point and then subtracting out the previous year's discretionary award level or \$4,860 (whichever is greater).
- **Alter eligibility criteria and calculations.** H.R. 3221 also would make changes to the criteria and formulas used to calculate eligibility for grants, such as excluding the assets and most untaxed income of both students and parents currently included in calculating eligibility.

Under CBO's March baseline assumptions, consistent with the current budget resolution, those changes would increase direct spending by \$39.4 billion over the 2010-2019 period. In addition, the changes to the eligibility criteria and formulas would increase discretionary spending by \$6.3 billion over the same period, assuming appropriation of the estimated amounts.

Estimated Cost of H.R. 3221 Relative to the August Baseline

As shown in Table 1, relative to its August baseline, CBO estimates that changes to Pell grants in H.R. 3221 would increase direct spending by \$49.9 billion over the 2010-2019 period. That represents an increase of \$10.5 billion compared to the estimate relative to the March baseline.

Assuming the appropriation of sufficient funds to support a maximum discretionary award level of \$4,860, the bill also would increase discretionary spending for Pell grants by \$7.2 billion over the same period. That is an increase of \$0.9 billion relative to the March baseline.

Honorable John Kline

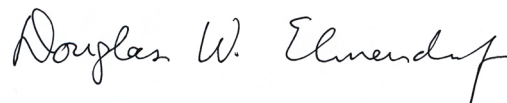
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The increase in estimated direct spending from using August baseline assumptions for Pell grants under H.R. 3221 results from two factors:

- Roughly two-thirds of the projected increase in costs (about \$7 billion) is due to CBO's projected increase in participation in the Pell grant program based on updated data from the Department of Education on applications for federal aid. CBO now anticipates that by 2019 about 10 percent more students would participate in the program under H.R. 3221 than it previously projected.
- The remaining one-third (about \$3.5 billion) results from CBO's projected increase in the forecast of the CPI, which results in higher projections of the maximum award level under the calculations prescribed by H.R. 3221. As shown in Table 2, CBO estimates that under the August baseline the mandatory award level would grow from \$5,550 in 2010 to \$6,990 by 2019, compared to \$6,900 as estimated under the March baseline CPI assumptions.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Justin Humphrey.

Sincerely,



Douglas W. Elmendorf
Director

Enclosure

cc: Honorable George Miller
Chairman
Committee on Education and Labor

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget

Honorable Paul Ryan
Ranking Member

TABLE 1. CHANGES IN DIRECT SPENDING FOR PELL GRANTS UNDER H.R. 3221, RELATIVE TO DIFFERENT BASELINES

| | By Fiscal Year, in Billions of Dollars | | | | | | | | | | | | |
|---|--|------|------|------|------|------|------|------|------|------|------|-----------|-----------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2009-2014 | 2009-2019 |
| CHANGES IN DIRECT SPENDING^a | | | | | | | | | | | | | |
| Relative to CBO's August Baseline | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0.4 | 2.5 | 1.6 | 7.7 | 4.1 | 5.3 | 6.7 | 8.2 | 10.2 | 12.2 | 16.3 | 58.9 |
| Estimated Outlays | 0 | 0.1 | 1.0 | 2.2 | 3.3 | 6.7 | 4.5 | 5.7 | 7.1 | 8.7 | 10.7 | 13.2 | 49.9 |
| Relative to CBO's March Baseline and Consistent with the Concurrent Resolution on the Budget^b | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0.1 | 1.9 | 0.8 | 6.7 | 3.6 | 4.0 | 5.2 | 6.4 | 8.1 | 9.9 | 13.0 | 46.7 |
| Estimated Outlays | 0 | * | 0.6 | 1.6 | 2.4 | 5.8 | 3.7 | 4.3 | 5.5 | 6.9 | 8.6 | 10.4 | 39.4 |

Note: Components may not sum to totals because of rounding; * = between zero and \$50 million.

- a. In addition, changes that H.R. 3221 would make to the formulas used to calculate the eligibility for Pell grants would result in additional discretionary costs, assuming appropriation of the necessary amounts. Relative to CBO's August baseline, those costs would be about \$0.9 billion higher over the 2010-2019 period than the costs measured relative to the March baseline.
- b. The estimated cost relative to the March baseline is CBO's official estimate of the cost of the proposal for purposes of Congressional scorekeeping, consistent with H. Con. Res. 85, the Concurrent Resolution on the Budget for Fiscal Year 2010.

TABLE 2 ESTIMATED MAXIMUM AWARD LEVELS FOR PELL GRANTS UNDER H.R. 3221, UNDER DIFFERENT BASELINES

| | By Fiscal Year, in Dollars | | | | | | | | | | | |
|--|----------------------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| ESTIMATED MAXIMUM AWARD LEVEL | | | | | | | | | | | | |
| Using CBO's August Baseline | | | | | | | | | | | | |
| Discretionary award level ^a | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 |
| Additional mandatory award level ^b | <u>490</u> | <u>690</u> | <u>840</u> | <u>970</u> | <u>1,090</u> | <u>1,215</u> | <u>1,365</u> | <u>1,540</u> | <u>1,730</u> | <u>1,930</u> | <u>2,130</u> | <u>2,130</u> |
| Total | 5,350 | 5,550 | 5,700 | 5,830 | 5,950 | 6,075 | 6,225 | 6,400 | 6,590 | 6,790 | 6,990 | 6,990 |
| Using CBO's March Baseline ^c | | | | | | | | | | | | |
| Discretionary award level ^a | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 | 4,860 |
| Additional mandatory award level ^b | <u>490</u> | <u>690</u> | <u>825</u> | <u>950</u> | <u>1,065</u> | <u>1,180</u> | <u>1,315</u> | <u>1,475</u> | <u>1,660</u> | <u>1,850</u> | <u>2,040</u> | <u>2,040</u> |
| Total | 5,350 | 5,550 | 5,685 | 5,810 | 5,925 | 6,040 | 6,175 | 6,335 | 6,520 | 6,710 | 6,900 | 6,900 |

- a. The discretionary award level of \$4,860 is the stated amount for academic year 2009-2010. CBO assumes that same amount for every year thereafter. If the discretionary award level is set at a higher amount, the estimated costs of the bill also would be higher.
- b. The mandatory add-on of \$690 for fiscal year 2010 is stated in current law.
- c. The estimated award levels under the March baseline are those used for CBO's official estimate of the cost of the proposal for Congressional scorekeeping purposes, consistent with H. Con. Res. 85, the Concurrent Resolution on the Budget for Fiscal Year 2010.