



July 3, 2013

Honorable Patrick J. Leahy
Chairman
Committee on the Judiciary
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

CBO and the staff of the Joint Committee on Taxation (JCT) have reviewed S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act, as passed by the Senate on June 27, 2013. This letter and the enclosed tables summarize CBO and JCT's analysis of that legislation, reflecting the adoption of Senate Amendment 1183 prior to the Senate's completion of action on S. 744.¹

Estimated Impact on the Federal Budget for 2014 Through 2023

CBO estimates that, by 2023, enacting S. 744 would lead to a net increase of 9.6 million in the total number of people residing in the United States, compared with the number of people projected under current law. The resulting increase in the number of legal residents would boost direct spending for federal benefit programs; direct spending for enforcement and other purposes would also rise. Under the act, federal revenues would be higher as well, mostly because of the larger size of the labor force. Finally, implementing the act would require an increase in discretionary funding (that is, funding subject to annual appropriation actions) for immigration-related activities.

CBO and JCT estimate that enacting S. 744, as passed by the Senate, would generate changes in direct spending and revenues that would decrease federal budget deficits by \$158 billion over the 2014-2023 period (see Table 1, enclosed with this letter). CBO also estimates that implementing the legislation would result in net discretionary costs of \$23 billion over the 2014-2023 period, assuming appropriation of the amounts authorized or otherwise

1. For additional information on the analysis of S. 744 by CBO and JCT, see the cost estimate transmitted on June 18, 2013 (for S. 744 as approved by the Senate Committee on the Judiciary) and a letter transmitted on June 24, 2013, providing a preliminary analysis for Senate Amendment 1183. www.cbo.gov/publication/44225 and www.cbo.gov/publication/44372, respectively.

needed to implement the legislation. Combining those figures would lead to a net savings of about \$135 billion over the 2014-2023 period from enacting S. 744. However, the net impact of the legislation on federal deficits would depend on future actions by lawmakers, who could choose to appropriate more or less than the amounts estimated by CBO. In addition, the total amount of discretionary funding is currently capped (through 2021) by the Budget Control Act of 2011; extra funding for the purposes of this legislation might lead to lower funding for other purposes.

Following the long-standing convention of not incorporating macroeconomic effects in cost estimates—a practice that has been followed in the Congressional budget process since it was established in 1974—cost estimates produced by CBO and JCT typically reflect the assumption that macroeconomic variables such as gross domestic product (GDP) and employment remain fixed at the values they are projected to reach under current law. However, because S. 744 would significantly increase the size of the U.S. labor force, CBO and JCT relaxed that assumption by incorporating in this cost estimate their projections of the direct effects of the act on the U.S. population, employment, and taxable compensation.

S. 744 also would have a broader set of effects on output and income that are not reflected in this cost estimate. Those additional economic effects include changes in the productivity of labor and capital, the income earned by capital, the rate of return on capital (and therefore the interest rate on government debt), and the differences in wages for workers with different skills. Those effects and their estimated consequences for the federal budget are described in a report that accompanied CBO's cost estimate for the version of S. 744 that was approved by the Committee on the Judiciary.² Under the version that was passed by the Senate, those broader effects would differ only slightly from those estimated for the earlier version of S. 744.

CBO and JCT, in consultation with outside experts, have devoted a great deal of care and effort to analyzing the impact of changes in immigration policies, and the agencies strove to develop estimates of the effects of this legislation that are in the middle of the distribution of possible outcomes. Nevertheless, the actual outcomes would surely differ from these estimates in one direction or another. The projections of the budgetary impact and other effects of immigration legislation are quite uncertain because they depend on a broad array of behavioral and economic factors that are difficult to predict. In particular, the budgetary effects of S. 744 would depend significantly on: the number of people who would choose to immigrate to the country under the

2. See Congressional Budget Office, *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (June 2013), www.cbo.gov/publication/44346.

new categories; the number of unauthorized residents who would choose to obtain legal status; the number of people who would choose not to immigrate to the country because of changes in enforcement and other factors; the number of additional residents who would choose to work and the income they would earn; the number of additional residents who would be eligible for federal benefit programs and the rates at which they would take up benefits; and other factors.

Many aspects of CBO's estimate for the Senate-passed legislation are the same as those for the committee-approved bill. Therefore, this letter focuses primarily on the changes relative to that previous estimate. All told, relative to the committee-approved bill, the Senate-passed legislation would boost direct spending by about \$36 billion, reduce revenues by about \$3 billion, and increase discretionary costs related to S. 744 by less than \$1 billion over the 2014-2023 period.

Direct Spending. The act would change direct spending relative to the amounts estimated for S. 744 as reported by the Judiciary Committee for two primary reasons: Some provisions included in the adopted amendment would directly affect spending for benefit programs, and other provisions would affect such spending by changing the number of people in the country. In total, the Senate-passed version of S. 744 would boost direct spending by about \$298 billion over the 2014-2023 period, \$36 billion more than the committee-approved version of the bill.

The act would directly appropriate additional funds for specific activities and would change how certain noncitizens who are currently unlawfully present would become eligible for Social Security and Medicare benefits. Specifically, the act would:

- Appropriate \$46.3 billion for expenses related to the security of the southern U.S. border and initial administrative costs. That appropriation would be \$38.0 billion greater than the funding included in the committee-approved version of S. 744. CBO estimates that of the additional \$38.0 billion, about \$36.6 billion would be spent over the 2014-2023 period; the remaining funds would probably not be spent because they would no longer be available for obligation after 2023.
- Appropriate \$1.5 billion for an employment program for youth. Based on historical spending patterns for similar programs, CBO estimates that implementing that program would increase direct spending by about \$1.4 billion over the 2014-2023 period; the remaining \$0.1 billion would not be spent.

- Prohibit certain unauthorized work from counting towards eligibility for Social Security and Medicare benefits. Relative to the estimate for the committee-approved version of S. 744, CBO estimates that spending for Social Security (which is classified as off-budget) would be \$0.8 billion less over the 2014-2023 period; spending for Medicare would be \$0.1 billion less over that same period.

In addition, by significantly increasing spending on border security, the act would result in fewer unauthorized residents in the country than projected for S. 744 as reported by the Judiciary Committee. (Those effects are discussed below under the heading “Effects on Immigration.”) CBO and JCT estimate that, as a result, spending for federal benefit programs for unauthorized residents would be less than projected for the reported version of S. 744. Specifically, over the 2014-2023 period, direct spending would be less by:

- \$0.4 billion for emergency services paid for by the Medicaid program,
- \$0.1 billion for child nutrition programs, and
- \$0.3 billion for refundable tax credits.

Revenues. Relative to the June 18 cost estimate for S. 744 as reported, the act would generate fewer revenues, JCT and CBO estimate.

- The increased spending on border security would further reduce the number of unauthorized residents in the United States. That reduction in population would reduce the taxes paid by, or on behalf of, unauthorized residents by \$3.2 billion over the 2014-2023 period, according to JCT’s estimates.
- The act also would impose a \$10 fee on certain petitions filed on behalf of noncitizens. CBO estimates that about 1 million of those petitions are filed each year and that revenues would increase by about \$10 million a year.

Spending Subject to Appropriation. Adding to the estimated \$22 billion in net discretionary costs over the 2014-2023 period for S. 744 as reported, the act would:

- Double the number of U.S. Border Patrol agents, thereby increasing the number of apprehensions of people violating immigration law. CBO estimates that the cost to prosecute, detain, and incarcerate the

additional offenders would total about \$0.6 billion over the 2014-2023 period.

- Authorize appropriations for the Department of Homeland Security (DHS) to forgive student loans, as a recruiting incentive for Border Patrol agents. CBO estimates that implementing that authority would increase discretionary spending by about \$0.5 billion over the 2014-2023 period, assuming appropriation of the necessary amounts.
- Direct DHS to adjust the amounts charged for new fees and penalties to result in collections of at least \$500 million in 2014 and \$1 billion for each of fiscal years 2015 through 2023. Under the act, those collections would be subject to appropriation action. CBO estimates that the required adjustments would increase collections and thus reduce net discretionary spending by a total of about \$0.9 billion over the 2015-2023 period.

Effects on Immigration

The Senate-passed legislation would result in roughly the same changes in legal immigration as the committee-approved bill. Hence, CBO's estimates of the effects of the legislation on legal immigration are unchanged (see Table 2 in CBO's June 18 cost estimate for those numbers).

The net inflow of unauthorized residents has two main elements: a flow of people who enter the country without authorization, and a flow of people who enter the country with authorization to stay for a temporary period but stay after that authorization has expired. S. 744 as passed would significantly increase border security relative to the committee-approved version of the bill, and it would strengthen enforcement actions against those who stay in the country after their authorization has expired. Therefore, CBO expects that, relative to the committee-approved version of S. 744, the Senate-passed act would reduce both illegal entry into the country and the number of people who stay in the country beyond the end of their authorized period.

CBO estimated that the committee-approved version of S. 744 would reduce the net inflow of unauthorized residents by about one-quarter compared with the projected net inflow under current law. For the Senate-passed version of S. 744, CBO estimates that the net inflow would be reduced by between one-third and one-half compared with the projected net inflow under current law. That effect would not be immediate, as it would take several years before DHS could hire the full number of Border Patrol agents called for in the act.

Consequently, CBO estimates that the number of unauthorized residents in 2023 would be lower by about 800,000 than estimated for S. 744 as reported

by the Judiciary Committee. Under the committee-approved version of S. 744, the net increase in the U.S. population would be 10.4 million people, CBO estimates. Under the Senate-approved version of S. 744, that net increase would be about 9.6 million people, after accounting for the larger decline in the number of unauthorized residents.

Estimated Budget Effects Beyond the First Decade

As with the committee-approved version of S. 744, even though total direct spending would increase markedly in the second decade after enactment, the total additional revenues resulting from the act would increase substantially as well, more than offsetting the projected increase in spending. For the Senate-passed version of S. 744, CBO and JCT estimate that changes in direct spending and revenues would decrease federal budget deficits by about \$685 billion (or 0.2 percent of gross domestic product) over the 2024-2033 period. (See Table 2; those figures differ only slightly from CBO and JCT's estimate for the committee-approved version of S. 744.)

Because the act would not significantly change the number of people legally entering the country, relative to the committee-approved version of the bill, the costs for benefit programs and the revenues associated with legal immigration would not change in any significant way. But the number of unauthorized residents would be smaller. Overall, CBO estimates that the net increase in the U.S. population from enacting S. 744 would be about 14.9 million by the end of 2033, as compared with the estimate of 16.2 million for that point in time under the committee-reported version of S. 744.

The net budgetary effect of decreasing the number of unauthorized residents would be relatively small—the small savings for Medicaid, child nutrition, and refundable tax credits would be more than offset by a slightly larger reduction in revenues paid by, or on behalf of, unauthorized residents. Those changes, relative to committee-approved version of S. 744, would increase budget deficits, on net, by about \$10 billion over the second decade after enactment.

The effect of prohibiting certain unauthorized work from counting towards eligibility for Social Security and Medicare benefits would grow over time. The savings from that provision, relative to the committee-approved version of S. 744, would total about \$5 billion over the 2024-2033 period.

Most of the direct spending associated with the increased number of Border Patrol agents would occur in the first decade. The Department of Homeland Security would face a discretionary cost of about \$5.5 billion per year to pay the salaries and expenses of the additional Border Patrol agents, initially paid for with the direct appropriation provided in the act, once those funds were no

longer available. As a result, the discretionary costs are projected to total between \$75 billion and \$80 billion over the 2024-2033 period, about \$55 billion more than under the committee-approved bill.

Although CBO expects that the Senate-passed legislation would increase on-budget deficits (that is, deficits that exclude Social Security receipts and spending) during the first 10 years after enactment, and would decrease it in the following 10 years, it is not clear whether the Senate-passed legislation would raise or lower on-budget deficits in the three 10-year periods beginning with 2033.

Intergovernmental and Private-Sector Mandates

The substantial increase in population that would occur if S. 744 was enacted would have many effects—both negative and positive—on the budgets of state, local, and tribal governments. CBO does not estimate the overall effects of legislation on the budgets of those governments, but it does identify intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and estimates the aggregate costs of those mandates relative to thresholds established in that act. CBO also identifies and estimates the costs of mandates that apply to private-sector entities.

S. 744 would impose several intergovernmental and private-sector mandates as defined in UMRA. Most of those mandates would fall on employers and other entities that hire, recruit, or refer individuals for employment. CBO estimates that the aggregate annual costs of the mandates imposed on public entities would fall below the intergovernmental threshold (which is \$75 million in 2013, adjusted annually for inflation). However, CBO estimates that the aggregate annual costs of the mandates imposed on private entities would total at least \$700 million once the mandates were fully in effect, probably by 2016; the costs thus would exceed the private-sector threshold (which is \$150 million in 2013, adjusted annually for inflation).

Most of the mandates in the Senate-passed legislation are identical to the mandates in S. 744 as reported by the Judiciary Committee. However, the act would impose an additional mandate on intergovernmental and private-sector entities by requiring employers who apply for employment-based visas to pay a \$10 surcharge per application. The Senate-passed legislation does not include the mandate on program sponsors of J-1 Visa exchange visitors that was contained in the committee-approved bill.

Previous Estimates

On June 18, 2013, CBO transmitted a cost estimate for S. 744, as reported by the Judiciary Committee on May 28, 2013 (with changes made in the star print of June 6, 2013). In that estimate CBO and JCT estimated that enacting the

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committee-approved version of S. 744 would have effects on direct spending and revenues that would reduce budget deficits by \$197 billion over the 2014-2023 period and about \$700 billion over the 2024-2033 period. In addition, that version of S. 744 would lead to discretionary costs for immigration-related activities of \$22 billion over the 2014-2023 period and \$20 billion to \$25 billion over the 2024-2033 period, assuming appropriation of the necessary amounts.

On June 24, 2013, CBO and JCT transmitted a letter on the effects of Senate Amendment 1183. That letter did not specify the detailed effects of the amendment, but indicated that the amended legislation would reduce budget deficits over both the 2014-2023 period and the 2024-2033 period.

Staff Contact

I hope you find this information useful. If you have any questions, the primary CBO staff contact is Sam Papenfuss.

Sincerely,

for 

Douglas W. Elmendorf
Director

cc: Honorable Chuck Grassley
Ranking Member

Enclosures

TABLE 1. SUMMARY OF ESTIMATED BUDGETARY EFFECTS OF S. 744, AS PASSED BY THE SENATE

	By Fiscal Year, in Billions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Estimated Outlays	7.6	11.2	18.1	23.9	28.2	29.1	35.2	40.8	48.3	55.7	89.0	298.1
On-budget	7.6	11.2	18.1	23.8	28.2	28.9	35.0	40.4	47.8	55.0	88.9	296.0
Off-budget	0	*	*	*	0.1	0.1	0.2	0.3	0.5	0.7	0.1	2.1
CHANGES IN REVENUES												
Estimated Revenues	2.1	11.5	27.9	39.0	44.8	47.4	54.8	64.4	77.0	86.8	125.3	455.8
On-budget	1.6	6.5	13.5	19.3	22.7	23.6	28.9	35.4	43.0	49.4	63.7	244.0
Off-budget	0.5	5.0	14.4	19.7	22.2	23.8	25.9	29.0	34.0	37.4	61.7	211.9
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Estimated Impact on Deficit	5.5	-0.3	-9.8	-15.1	-16.6	-18.4	-19.7	-23.7	-28.7	-31.1	-36.3	-157.7
On-budget	6.0	4.7	4.6	4.5	5.5	5.4	6.0	5.0	4.8	5.6	25.2	52.1
Off-budget	-0.5	-5.0	-14.4	-19.6	-22.1	-23.7	-25.7	-28.7	-33.5	-36.7	-61.5	-209.8
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	7.5	1.6	1.3	1.6	1.9	1.6	1.7	1.9	2.0	2.2	13.9	23.4
Estimated Outlays	2.6	2.5	2.5	2.2	2.2	2.0	2.0	2.1	2.2	2.4	12.0	22.7

Memorandum

Estimated Deficit Impact from Changes in Direct Spending and Revenues for S. 744 as Reported by the Judiciary Committee^a

Estimated Impact on the Deficit	2.5	-4.7	-14.0	-19.3	-20.5	-21.1	-23.1	-27.6	-33.2	-36.2	-55.9	-197.1
On-budget	3.0	0.3	0.4	0.3	1.7	2.8	2.9	1.4	0.6	0.9	5.7	14.2
Off-budget	-0.5	-5.0	-14.4	-19.7	-22.2	-23.9	-25.9	-29.0	-33.8	-37.1	-61.7	-211.4

Notes: The changes in direct spending would affect budget authority by similar amounts.

* = an increase of less than \$50 million; components may not sum to totals because of rounding.

a. The memorandum shows CBO's and JCT's estimate of the net increase or decrease (-) in the deficit from changes in direct spending and revenues for the committee-approved version of S. 744, as previously reported by CBO on June 18, 2013.

TABLE 2. ESTIMATED BUDGETARY IMPACT OF S. 744, AS PASSED BY THE SENATE, OVER THE 2024-2033 PERIOD

	<u>Billions of Dollars</u> 2024-2033
CHANGES IN DIRECT SPENDING	
Low-Income Health Programs	400
Social Security and Medicare	65
Refundable Tax Credits	265
Supplemental Nutrition Assistance Program	40
Other Direct Spending	<u>30</u>
Subtotal, Direct Spending	800
On-budget	755
Off-budget	45
CHANGES IN REVENUES	
Estimated Revenues	1,485
On-budget	865
Off-budget	620
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS ^a	
Estimated Impact on Deficit	-685
On-budget	-110
Off-budget	-575

Memorandum

Gross Domestic Product (Billions of dollars)	330,000
Impact on Deficit as a Percentage of GDP	-0.2

Sources: CBO and staff of the Joint Committee on Taxation.

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

* = less than 0.05 percent.

- a. In addition, CBO estimates that implementing S. 744 would have significant effects on discretionary spending. CBO estimates those costs would total \$23 billion over the 2014-2023 period and between \$75 billion and \$80 billion over the 2024-2033 period, including the costs for the additional Border Patrol agents that were paid for with a direct appropriation during the 2014-2023 period.