Congressional Budget Office
Cost Estimate

January 11, 2024

At a Glance

H.R. 6585, Bipartisan Workforce Pell Act

As reported by the House Committee on Education and the Workforce on December 22, 2023

By Fiscal Year, Millions of Dollars	2024	2024-2028	2024-2033
Direct Spending (Outlays)	-34	-760	-1,736
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	-34	-760	-1,736
Spending Subject to Appropriation (Outlays)	0	480	1,447

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	Yes
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

The bill would

- Prohibit institutions of higher education subject to the endowment excise tax from offering most federal loans to students and parents
- Expand eligibility for Pell grants to students enrolled in short-term job-training programs
- Require short-term programs to meet certain criteria to participate in the Federal Pell Grant Program

Estimated budgetary effects would mainly stem from

- Reducing the volume of federal student loans
- Increasing the number of students that receive Pell grants
- Authorizing the appropriation of funds to implement the expansion of the Pell grant program

Areas of significant uncertainty include

- Predicting institutional and student responses to the prohibition on lending by institutions that are subject to the endowment tax
- Projecting the number of programs that would newly participate in the Pell grant program and the number of students that would newly receive Pell grants

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Bill Summary

H.R. 6585 would prohibit any institution of higher education that is subject to the endowment excise tax from providing federal loans to students and to most parents of students. (Private institutions with an enrollment of at least 500 students and an endowment of more than $500,000 per student are subject to that tax.)

H.R. 6585 also would expand eligibility for Pell grants to students enrolled in job-training programs that require between 150 and 600 clock hours of instruction (or 8 to 15 weeks of instruction). To be eligible currently, an undergraduate student must meet certain financial and other criteria and must be enrolled in a program that requires at least 600 clock hours of instruction. Under the bill, job-training programs would need to meet all other criteria for participation in federal student aid programs and:

- Receive approval from a state workforce board authorized under the Workforce Innovation and Opportunity Act,
- Receive approval from a recognized accreditor to ensure that the program leads to a recognized credential, and
- Submit data to the Department of Education to demonstrate that the program meets criteria that include a verified job placement rate and a completion rate of at least 70 percent, as well as a new earnings metric.

Estimated Federal Cost

The estimated budgetary effect of H.R. 6585 is shown in Table 1. The costs of the legislation fall within budget function 500 (education, training, employment, and social services).

Table 1.
Estimated Budgetary Effects of H.R. 6585

	By Fiscal Year, Millions of Dollars											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024-2028	2024-2033
Decreases in Direct Spending												
Estimated Budget Authority	-57	-207	-208	-204	-211	-213	-214	-212	-210	-222	-887	-1,958
Estimated Outlays	-34	-147	-194	-193	-192	-195	-195	-195	-192	-199	-760	-1,736
Increases in Spending Subject to Appropriation												
Authorization	0	95	130	187	210	213	185	188	191	194	622	1,593
Estimated Outlays	0	34	100	154	192	211	189	186	189	192	480	1,447

Basis of Estimate

For this estimate, CBO assumes that H.R. 6585 will be enacted early in calendar year 2024 and that the authorized and estimated amounts will be provided in each fiscal year. All costs are estimated relative to CBO's May 2023 baseline.

Budgetary Treatment of Federal Student Loans and Pell Grants

The federal direct student loan program and the Federal Pell Grant Program are treated differently in the federal budget.

Federal Student Loans. As required by the Federal Credit Reform Act of 1990 (FCRA), the costs of the student loan program are estimated on a net-present-value basis. A present value is a single number that expresses a flow of current and future payments or receipts in terms of an equivalent lump sum paid or received at a specific time. The value depends on the rates of interest, known as the discount rates, used to translate future cash flows into current dollars. FCRA specifies those discount rates as the rates on Treasury securities with similar terms to maturity.

Pell Grants. The Pell grant program receives discretionary and mandatory funding to provide need-based grants to undergraduate students. For the 2023-2024 academic year, which began on July 1, 2023, the maximum discretionary award was set in the annual appropriation act at $6,335. The program also has direct spending authority to support a "mandatory add-on," which increases the award amount by $1,060 above the discretionary maximum.[1] Thus, for the 2023-2024 academic year, the total maximum award is $7,395. The amount of the maximum discretionary award is set in annual appropriation acts, and CBO's estimate is based on the assumption that the current amount will be in place through 2033.

The costs of the mandatory and discretionary components of Pell grants under the bill are discussed separately in "Direct Spending" and "Spending Subject to Appropriation."

Direct Spending

On net, CBO estimates that enacting H.R. 6585 would decrease direct spending by $1.7 billion over the 2024-2033 period (see Table 2). That amount consists of a $2.0 billion decrease in direct spending for student loans and a $0.3 billion increase in direct spending for Pell grants.

1. Additional mandatory funding is provided under section 401(b)5(A)(i) of the Higher Education Act of 1965. That budget authority is used to augment the funding provided in annual appropriations for the discretionary Pell grant program.

Table 2.
Estimated Changes in Direct Spending Under H.R. 6585

	By Fiscal Year, Millions of Dollars											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024-2028	2024-2033
	Increase or Decrease (-) in Direct Spending											
Federal Student Loans[a]												
Estimated Budget Authority	-57	-218	-227	-235	-246	-249	-250	-249	-247	-259	-983	-2,237
Estimated Outlays	-34	-150	-207	-215	-224	-230	-231	-231	-229	-236	-830	-1,987
Pell Grants												
Estimated Budget Authority	0	11	19	31	35	36	36	37	37	37	96	279
Estimated Outlays	0	3	13	22	32	35	36	36	37	37	70	251
Total Changes												
Estimated Budget Authority	-57	-207	-208	-204	-211	-213	-214	-212	-210	-222	-887	-1,958
Estimated Outlays	-34	-147	-194	-193	-192	-195	-195	-195	-192	-199	-760	-1,736

a. CBO estimated these costs using procedures required by the Federal Credit Reform Act of 1990.

Federal Student Loans. Beginning on July 1, 2024, H.R. 6585 would prohibit private colleges and universities that are subject to the endowment tax under the Internal Revenue Code (26 U.S.C. § 4968) from providing federal student loans to otherwise eligible students. (Private institutions with an enrollment of at least 500 students and an endowment of more than $500,000 per student are subject to that tax.) The bill also would prohibit those institutions from providing PLUS loans to parents of students who receive Pell grants. Using data from the National Association of College and University Business Officers and the Internal Revenue Service, CBO estimates that about 35 private institutions met the threshold for the endowment tax in 2022. According to federal student aid data from the Department of Education, those institutions disbursed about $1.4 billion in federal student loans in 2022, about 80 percent of which went to graduate students.

CBO estimates that most students who would have used federal student loans to attend the schools that are subject to the endowment tax would still choose to enroll in them and would probably fund their studies through private-sector loans or other institutional aid. Thus, enacting the bill would reduce the amount of federal student loans disbursed relative to CBO's May 2023 baseline projections.

CBO also expects that, under current law, most graduate borrowers at the schools will select income-driven repayment (IDR) plans, which offer various benefits, including forgiveness of outstanding balances after a certain number of payments. CBO estimates that loans disbursed to borrowers who select IDR plans increase the cost of the federal student loan program. As a result, reducing the volume of federal student loans disbursed by those schools would reduce direct spending by $2.0 billion over the 2024-2033 period, CBO estimates.

Pell Grants. Beginning July 1, 2025, H.R. 6585 would expand eligibility for Pell grants to students at institutions that offer qualifying programs of between 150 to 600 clock hours of instruction.

Using data from the Department of Education, statistics from the American Association of Community Colleges, and published reports, CBO estimates that, under the bill, by 2033 approximately 100,000 new recipients each year would receive Pell grants of about $2,200 each (about 20 percent of that amount from mandatory funds). On that basis, CBO estimates that enacting the provision would increase the cost of the mandatory Pell grant add-on by $251 million over the 2024-2033 period.

To be eligible, programs must demonstrate job placement and completion rates of at least 70 percent, and that their tuition and fees do not exceed the difference between the median earnings of students who complete the program and 150 percent of the federal poverty line. CBO expects that fewer than half of the current short-term programs at institutions that already receive financial aid under title IV of the Higher Education Act would eventually become newly eligible under the bill. However, using information from community colleges and research on postsecondary education, CBO expects that many students enrolled at such institutions already receive Pell grants because they are enrolled in short-term programs that are “stacked” within longer-term programs that are eligible to participate Pell grants. As a result, under current law, those students can receive a Pell grant even if they do not complete the longer-term program.

In addition, based on the existing literature, reports on the earnings in professions stemming from short-term programs, and discussions with experts, CBO expects that many short-term programs that do not currently receive title IV funding, particularly those in the proprietary sector, would not participate in the Pell grant program under H.R. 6585 either because they could not meet the metrics established in the bill or because they would choose not to meet the additional requirements needed to participate in federal student aid programs.

Spending Subject to Appropriation

In total, CBO estimates that implementing H.R. 6585 would increase spending subject to appropriation by $480 million over the 2024-2028 period and by $1.4 billion over the 2024-2033 period.

Pell Grants. CBO estimates that implementing H.R. 6585 would increase the cost of the discretionary portion of the Pell grant program by $356 million over the 2024-2028 period and by $1.3 billion over the 2024-2033 period. That estimate is based on the assumption that the maximum award specified in the annual appropriation act would equal the current amount, $6,335, for each year through 2033, the final year of the current budget window.

Administrative Costs. H.R. 6585 would authorize the appropriation of $40 million in 2025 and $30 million annually from 2026 through 2029 for administrative costs the Department of Education would incur to implement the bill. CBO estimates that implementing this provision would cost $124 million over the 2024-2028 period and $160 million over the 2024-2033 period, assuming appropriation of the authorized amounts.

Table 3.
Estimated Increases in Spending Subject to Appropriation Under H.R. 6585

	By Fiscal Year, Millions of Dollars					
	2024	2025	2026	2027	2028	2024-2028
Pell Grants						
Estimated Authorization	0	55	100	157	180	492
Estimated Outlays	0	14	66	114	162	356
Administrative Costs						
Authorization	0	40	30	30	30	130
Estimated Outlays	0	20	34	40	30	124
Total Changes						
Estimated Authorization	0	95	130	187	210	622
Estimated Outlays	0	34	100	154	192	480

Uncertainty

CBO's estimate of H.R. 6585 is uncertain. Part of that uncertainty is related to the estimate of the number of institutions that would be subject to the endowment tax and the volume of student loans that otherwise would have been disbursed by those institutions. Endowments change over time, and students and institutions may respond in different ways to the bill's new rules for lending by those institutions. Moreover, it is not clear how the policy would be implemented, and the Department of Education could provide discretion in the application of the new policies to give institutions and students more certainty about whether federal student loans would be available in a given award year.

Information about the number of students in short-term programs who would be newly eligible for Pell grants also is limited and actual participation could be higher or lower than CBO's estimate. For example, students may already qualify under current law for Pell grants if they complete a short-term program that is stacked within a longer-term program, even if they do not complete the longer-term program, but data on the number of students enrolled in such programs are unavailable.

Finally, costs for the Pell grant program depend on the amount of the maximum discretionary award provided in annual appropriation acts. If legislation is enacted to make the awards higher or lower than the amount for the 2023-2024 academic year, which CBO assumes will be in place through 2033, the bill's costs would be higher or lower than shown in this estimate.

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 that are subject to those pay-as-you-go procedures are shown in Table 4.

Table 4.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 6585, as Reported by the House Committee on Education and the Workforce on December 22, 2023

	By Fiscal Year, Millions of Dollars											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024-2028	2024-2033
	Net Decrease in the Deficit											
Pay-As-You-Go Effect	-34	-147	-194	-193	-192	-195	-195	-195	-192	-199	-760	-1,736

Long-Term Net Direct Spending and Deficits

CBO estimates that enacting H.R. 6585 would not increase net direct spending or deficits in any of the four consecutive 10-year periods beginning in 2034.

Mandates

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

Estimate Prepared By

Federal Costs:

Leah Koestner (for student loans)
Garrett Quenneville (for Pell grants)

Mandates: Erich Dvorak

Estimate Reviewed By

Kathleen FitzGerald
Chief, Public and Private Mandates Unit

Justin Humphrey
Chief, Finance, Housing, and Education Cost Estimates Unit

H. Samuel Papenfuss
Deputy Director of Budget Analysis

Estimate Approved By

Phillip L. Swagel
Director, Congressional Budget Office