

July 17, 2006

Erin Prangley
Oscar Garcia
Office of Congressman Brad Sherman
5000 Van Nuys Boulevard, Suite 420
Sherman Oaks, CA 91403

Rebecca Carlton
Office of Congressman Brad Sherman
1030 Longworth
Washington, DC 20515

Dear Ms. Prangley, Ms. Carlton and Mr. Garcia:

Thank you for meeting me last Thursday regarding the immigration public policy recommendations and research data from RAND studies.

The short meeting did not permit my presentation of the Federal Public Policy Recommendation outlined in the report. I have attached a copy of the recommendations for your review. I also have included an analysis of illegal immigrant revenue vs. cost of public service analysis.

From our discussion, it became clear that I did not illustrate the revenue generated from illegal immigrants (Federal and State income tax, sales tax, property tax) will not offset the public service costs, specifically public education, consumed by this population even with inclusion of the “tax” or “penalty fee” suggested by the President.

A family of five (mother, father and three children) earning a combined average salary for an illegal immigrant family is \$40,000 and will generate a revenue of \$3,299 for the State and local Government. However, the minimum public service cost annually is \$33,000 to educate the three children in California. The total annual net cost to the State and Local Government for a family of five is <-\$29,701>.

Based on the net consumption of public services, specifically public education, the “penalty fee” does not appreciably balance the owed amount by the illegal immigrant family now or in the next two generations. (Note: Two generations are required before illegal immigrants who are low-skilled and low-education reach economic success and parity with natives.) Therefore, Californians will be paying, for the next two generations, the public services used by the illegal immigrant population.

Los Angeles is composed of forty percent (40%) immigrants and are net consumers of public services – in the past, present and future. These costs place an unfair burden onto California tax payers to offset the illegal immigrant consumer and legislators desire to pay for these service and balance future budgets. Please review the attached analysis which illustrates this.

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Re: Letter to the Office of Congressman Brad Sherman

In essence, the Federal Government has inadequately managed illegal immigrants at the country's border and interior. Yet, the public service costs associated to educate, incarcerate, healthcare and welfare for illegal immigrants are passed disproportionately onto the State and local government and the tax paying residence.

The revenue for State and local public services comes from property taxes. At the present time, the State of California has had an increase revenue due to property taxes of recently purchased homes and property. As interest rates rise: 1. The value of California homes will reduce due to the higher monthly mortgage payment and 2. Homes purchased with adjustable or interest only loans will be reduced in price for a quick sale to avoid foreclosure. Lower housing prices will cause lowered property tax revenue for the State to pay for the public services. The surplus currently enjoyed in California will disappear but the State and local cost of public services will not go away.

I hope your office will send a representative to the Woodland Hills Chamber of Commerce Luncheon, this Wednesday July 19 from 11:30 to 1:00 PM where I will present,

*Immigration: Legal and Illegal
United States, California and Los Angeles
Review of Research and Public Policy*

This will provide the Congressman with input from his constituents in the San Fernando Valley about this topic and address some of their questions.

Regards,

Kevin P. McNamee, DC, L.Ac., QME
Director

cc: President of the United States
United States Senators
United States House of Representatives
Governor, State of California
California Assembly Members and State Senators
Los Angeles County Board of Supervisors
Mayor of Los Angeles
Los Angeles City Council Members
Los Angeles Unified School District Board Members
Los Angeles Police Commission
Los Angeles Police Chief

Economic Analysis of Illegal Immigration Revenue and Cost

Dr. Kevin P. McNamee, DC, L.Ac.

July 17, 2006



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Economic Analysis of Illegal Immigration: Revenue and Cost

Size of current immigration flows and the disproportionate share of poorly educated immigrants within California and Los Angeles combined with changes in California's economy has increased the costs of immigration to the state's public sector and to some native workers.

California's economy has shifted to high-skilled, service and technology industries where employers are seeking a more highly educated work force. The trend is for a widening gap between what the state's economy and public services can provide and what the growing numbers of poorly educated immigrants needed.

Concentration of refugees and other low-income immigrants make heavy use of public services with greatest being the state's public education system. The illegal immigrants characteristically are childbearing age with fertility rates higher than those of the native populations will give rapid increases in the primary and middle school enrollments. The effects of this illegal immigrant population increase on the state's community colleges and universities has not yet been fully felt.

The payment of these social and public programs used by illegal immigrants is by lower levels of government who are principally responsible for public education and police/fire services. The costs shared with the local/state/federal services include health and welfare. Immigration is a federal responsibility but illegal immigration places a disproportionate demand on the state and local governments. It creates an imbalance in cost-sharing between the Federal government, State and Local Governments.

Primary revenue sources to operate State and City services are 1. Income Tax, both Federal and State, 2. Sales Tax and 3. Property Tax which includes bond measure payments. The Federal and State Taxes for an average illegal immigrant husband and wife combined income is \$ 40,000.

1. Income Tax Revenue (Federal and State)

Analysis of the Average Family State and Federal Taxes Paid

	Federal	State
Standard Exemption	- \$10,000	- \$6,508
Personal Exemption Tax	- \$16,000 (\$3,200 x 5) \$ 1,403	\$ 614
Child Tax Credit Federal	- \$ 1,403	
Exemption Credit State [\$87x2 + \$72 x 3]		- \$ 990
Tax Owed	\$ -0-	\$ -0-
Additional Tax Credit	\$ 1,597 (Refund)	\$ -0-
Refund	\$ 1,597	\$ -0-

2. Sales Tax Revenue

The State sales tax collected is based on the Los Angeles Sales Tax rate of 8 ¼%. The family purchases monthly, on average, \$1,720 which is \$20,640 annually. The Sales Tax generated annually from the family of five purchases is \$1,702.

3. Property Tax Revenue

An illegal immigrant family of 5 with a gross income of \$39,132 will not qualify to purchase a home in Los Angeles and thus there is no property tax collected.

The average illegal immigrant earns a gross income of \$19,566. A family with two incomes, mother and father has an average annual combined income of \$39,132.

Estimated monthly income and expense for a two parent and three children household no home mortgage deductions

Income (monthly)		\$ 3,261
Expenses (monthly)		
Rent	\$ 500	
Food	\$ 1,500	
Clothing	\$ 100	
Gasoline for the Car	\$ 120	
Utilities (Gas, Electric, Water)	\$ 300	
Telephone	\$ 50	
Taxes		
State	\$ -0-	
Federal	\$ -133	
Total Expenses		\$ 2,437
Balance at Months End		\$ 824

Note: Does not include health, car, disability, or life insurance. Does not include auto repairs, recreation/vacation or retirement savings..

Summary of Tax Revenue from all Sources for the Illegal Immigrant Family of Five.

Income Tax	
Federal and State: Refund	\$1,597
Sales Tax	
At 8 ¼% sales tax on \$20,640	\$1,702
Property Tax	
Includes Bond Measure Payments	\$ -0-
Total State and City Revenue Annually	\$3,299

Minimum Public Service Expenses for a Two Income Illegal Immigrant Family

Cost of Public Services for the family of five

Public Education	
3 children x \$11,000	\$33,000
Law Enforcement / Incarceration	Cost unknown at this time
Health and Welfare	<u>Cost unknown at this time</u>
Total minimum annual cost family of five	\$33,000

Federal, State and Local Revenue and Public Service Cost at a Minimum Revenue per five member household is	\$3,299
Public Service Cost Minimum	<u>-\$33,000</u>
Total Cost Annually to the State and Local Government for a family of five	-\$29,701

Note: Los Angeles has 40% of its residents are immigrants

Recent immigrants have low incomes and families with low incomes contribute less to public revenues than those with high incomes. Also, have been net consumers of public resources, but exactly how great that cost is unclear.

Concern that growing immigrant numbers with low levels of education are inconsistent with the development of an economy that increasingly demands a more highly educated labor force. Concerns about the country's ability to strike a balance between continuing population growth and environmental sustain ability.

Federal Level Public Policy Recommendations

Dr. Kevin P. McNamee, DC, L.Ac.

July 17, 2006



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Public Policy Recommendations

Federal Level Public Policy Recommendations

Encourage Mexico to offer its native Mexican students public education beyond the sixth grade – preferable through the 12th grade. (McNamee -- CHI)

A predictor of an individual's economic success is based on the level of education obtained. The more education one obtained, the greater potential for financial achievement and increased revenue to the local and national economy. Currently, the Mexican government offers public education up to the sixth grade. If a child is to continue in school, financial resources must be obtained to pay for private education. This cost usually falls on the parents who, themselves are not financially capable. Sociologically, this has a two-fold effect. Firstly, it perpetuates a low-skill, low-educated and low-income class of people in the Mexican economy. Even if a child has the potential for completing highschool and/or college, the lack of economic resources traps the child in a low-skill, low-wage job with few prospects. Secondly, this low level education provides a continued supply of low-cost labor to the Mexican economy however, manufacturing in Mexico has moved out of the country and has left many in its country without jobs.

Encourage Mexico to offer its native students educational assistance and loans similar to the Student Loan Program, GI Bill and ROTC programs in the United States. (McNamee, CHI)

Offering governmental financial education assistance to the Mexican citizens offers the promising student a potential for an increase income and high-skill profession instead of a fate as a low-skilled laborer. This will provide growth in Mexico's economy with additional revenue from high-skilled professionals.

Federal government to reimburse California, Los Angeles and other states for costs associated with illegal immigrants' use of public services. (McNamee, CHI)

Securing the United States border is the responsibility of the Federal government. For various reasons, approximately 8 to 12 million illegal immigrants reside in the United States. Immigrants make up approximately one-third of California's population and forty percent of Los Angeles residents. Immigrants, especially illegal immigrants, are heavy consumers of public services which include education, incarceration/law enforcement, health and welfare. These services are paid for and provided by state, county and city governments from revenue generated by its tax paying businesses and citizens.

Congress and the President are negotiating a "path to citizenship" for illegal immigrants without these individuals going through the established immigration procedures for people outside of the country desiring citizenship. The "path to citizenship" is for the illegal immigrants who have low-skills, are less educated and make less income compared to other immigrants or California

natives. The time it takes for illegal immigrants to reach economic parity with other immigrant groups or California natives is approximately two generations. By the President and Congress allowing the illegal immigrants to become US citizens, Californian natives will be supporting the "new citizens" for the next 40 years until they become less dependent on public services. This, because the Federal government did not do its job enforcing border security or removing illegal immigrants from the country's interior.

To obtain reimbursement from the Federal Government, the cost associated with these public services should first be established. Depending on the number of illegal immigrants that take advantage of this opportunity, this cost is multiplied by the number seeking citizenship and multiplied by 40 years and adjusted for annual inflation. This is a fair compensation to California and Los Angeles. This will give the Congress and the President an idea of what each is asking from the people of California. It will also convey the magnitude of the negative impact illegal immigration has had on California and the magnitude illegal immigration has negatively impacted California's and Los Angeles's budgets which ultimately is paid by tax paying businesses and residents.

If the President and Congress do not negotiate a "path to citizenship" for the illegal immigrants, California and Los Angeles should still seek reimbursement for public service costs associated with support of this group. It should even consider obtaining reimbursement for past years when previous reimbursement attempts were ignored.

The other states (New York, Texas, Florida, Illinois) and cities (Miami, New York, and Chicago) which have been financially impacted by the illegal immigration and the Federal governments inability to secure the border, should do the same.

Deport illegal immigrants if the Federal government does not compensate California, Los Angeles, and other states for costs associated with illegal immigrants' use of public services.
(McNamee, CHI)

It takes up to two generations for an immigrant to become economically successful. During this time, the immigrant consumes more in public services including education, incarceration, health and welfare, than what is contributed into the economy. Until economic success is achieved, these public services for the immigrant and offspring are paid by the state and local governments not the Federal government.

Securing the United States borders and interior from illegal immigrants is the Federal governments' responsibility. The President has proposed that illegal immigrants, meeting specific criteria, may become a United States citizen. As the illegal immigrants take advantage of this program, the Federal government removes its responsibility and financial liability to state and local governments for the public services used by the illegal immigrants turned citizen.

The Federal government's unwillingness to reimburse state and local governments for public services forces the denying of citizenship for the illegal immigrants and develop an orderly and economically sound exit plan. One option is to provide the current illegal immigrants guest workers' visas which are valid for 5 to 10 years in duration. During this time or at the guest workers' visa expiration, the illegal immigrant is to return to their home country and begin, if desired, citizenship steps. This will allow for minimization of economic impact to the state and local economy and for the illegal immigrant to get their financial affairs in order.

Maintain overall immigration levels within a moderate range. (McCarthy, RAND)

Current immigration policy establishes a fixed annual level of legal admissions. This fixed limit typically operates as a floor rather than a ceiling, because certain entrants are exempt from the overall limit and because refugee admissions are adjusted annually to accommodate international conditions. As a result, the number of annual admissions has been increasing. The costs of providing public services to immigrants and the economic effects of immigrants on current residents (both natives and earlier immigrants) vary depending on U.S. economic conditions.

One result of this dependence is that a backlash against all immigration can occur when the American public perceives that immigration levels are too high. A more balanced approach would be to adjust the total number of entrants so that it falls within a moderate annual range, depending on current economic conditions, and incorporate within that range annual refugee admissions. Defining what constitutes a "moderate" range is, of course, open to debate, but something between the 800,000 per year that occurred during the early 1990s and the 400,000 per year of the 1970s would provide a reasonable starting place. Moreover, incorporating refugee admissions within the annual ceiling would permit policymakers to adjust the balance between legal and refugee admissions to accommodate changing domestic and international conditions without exceeding the overall total.

Establish the cost of immigrants to economy of California and other states. (McNamee, CHI)

The California economy can support only so many immigrants each year before it is bankrupt by trying to provide public services such as education, incarceration/law enforcement, health and welfare. California and Los Angeles continue to fund their budget shortfalls with bond and other revenue enhancing measures which reduce the state's ability to meet other pressing service needs. It also reduces the Californians' spendable dollar and in turn slows the economy. By establishing these costs associated with immigrants, the Federal government may be able to better direct immigration levels. If the current costs for illegal immigrants continues, the California and/or the state may be out of money.

Increase the educational levels of new immigrants. (*McCarthy, RAND*)

In a society whose demand for more-educated workers is growing, the effect of admitting immigrants who are significantly less educated than natives is to put those immigrants at a disadvantage that can take generations to overcome. The Federal government should expand the criteria used to determine admission eligibility to include (in addition to family reunification) educational level and work skills.

Support programs designed to expedite English proficiency. (*McCarthy, RAND*)

Although the vast majority of immigrants who remain in the United States eventually learn English, some groups seriously lag others in terms of how long the process takes. The importance of a rapid acquisition of English for economic success and integration is widely recognized, and immigrants themselves believe it is important to attain English proficiency. Maintaining the English language requirements for naturalization and providing funding for English language education are two ways the Federal government can ease the integration of immigrants into California's society and economy. In turn, California should be ready to complement and, if necessary, supplement Federal efforts.

Immigration enforcement (*McCarthy, RAND*)

Currently, the public seems to be in favor of much more rigorous laws to limit illegal immigration. The traditional problem with regard to illegal immigration, however, has been one of insufficient enforcement rather than inadequate regulation. This problem stems primarily from a lack of consensus among policymakers, not from the performance of the Immigration and Naturalization Service.

Failure to rigorously enforce the nation's laws for illegal immigration has three negative effects on American values. First, it encourages a disregard for immigration law and perhaps for the rule of law more generally. Second, it violates basic equity principles with regard to potential immigrants who play by the rules and wait for their turn. And third, it encourages a backlash against all immigration and immigrants.

Better communication between the Social Security Administration and ICE for the enforcement of illegal immigration detection and deportation. (*McNamee, CHI*)

Currently, the Social Security Administration (SSA) and ICE do not communicate cooperatively to detect and deport illegal immigrants. Even when an employer detects an illegal immigrant and reports this to the SSA, the SSA does not contact ICE to alert the agency of the illegal immigrant.

The employment validation, either new hire or re-validation of an existing employee, with the SSA would be the first place for an illegal immigrant to be detected by employers. SSA contacts ICE for an investigation to locate and deport the illegal immigrant.

Expand bilateral cooperation with Mexico on immigration issues. *(McCarthy, RAND)*

Such U.S. and Mexico cooperation might entail expanding the number of legal residence permits available for Mexican immigrants in exchange for Mexican government collaboration on U.S.-Mexico border enforcement.

Review the allocation of costs between Federal and state governments. *(McCarthy, RAND)*

Although immigration is preeminently a Federal responsibility, there is little question that the states often feel the impact of immigration policies most directly. The Federal government must be willing to consider ways to alleviate the costs its immigration policies impose on state and local governments. Specifically, the Federal government should consider making broad compensation to California for its immigration costs. The state has no control over immigration policy, and yet immigration's net costs over the short term are more negative at the state level than at the Federal level. We recognize that justly allocating costs between the Federal and state levels touches on beliefs about Federal and state roles that are beyond the bounds of objective analysis. However, our recommendation is based on the idea that by accepting more of the cost of its own actions, the Federal government can help ensure that both it and California will make choices serving the national interest.

Establish a tamper proof form of identification. *(McNamee, CHI)*

The President has announced plans to have a national identification card for every United States citizen. Employers, law enforcement and other government officials will be able to verify the identity of all United States citizens using this card. However, this card runs the risk of being duplicated or counterfeited.

Another option is to consider is using iris identification for proof of identity and citizenship. An individual's iris is unique like fingerprints, however the iris is easier to scan and identify identification than fingerprints.

Employers are to register an established employee the first of each year or all new employees at the time of hiring with the Federal government.

Criteria for citizenship if a child is born in the United States -- one parent must be a United States citizen. *(McNamee, CHI)*

The children born in the United States to the parents of illegal immigrants have dual citizenship; United States and the parent's country of origin. When the child is of legal age, the child declares which country's citizenship is desired. Until the child is an adult, the child is entitled to all social programs, such as AFDC and food stamps. Even though illegal immigrants are not eligible for AFDC or food stamps, they benefit indirectly from these programs either through their eligible children or relatives.

This change will reduce this indirect benefit of social programs. It also removes the incentive to cross the United States border and deliver her child so the family can enjoy the public service benefits.

Retire the social security numbers of deceased citizens. *(McNamee, CHI)*

Each citizen has a unique social security number used for employment and paying one's taxes and receiving social benefits. Currently, the Federal government does not "retire" the social security numbers when the person dies. Others wanting to work in this country illegally, assume the persons identity and use the deceased social security number.

Retiring the social security number of deceased citizens allows for the tracking of illegal immigrant employment by the IRS, and other Federal and state agencies.

School breakfast and lunch programs. *(McNamee, CHI)*

In addition to the public school education, immigrant parents are nearly twice as likely to participate in school breakfast and lunch programs as children of native parents. Participation in this program requires that the child be a United States citizen.

Employers register employees annually and new hires with the IRS. *(McNamee, CHI)*

Using the telephone or card reader, each employer annually registers the employees using the national identification card with the IRS and/or EDD. Once scanned or called in with the employee's social security number, the employer receives an authorization code for each employee which is reported on the corporation (K-1) or individual returns (Schedule C). This gives the IRS an immediate notification if the same identification card is used in multiple or geographically improbable locations suggesting the identification card or social security card is stolen or counterfeit. The employer is unable to hire the employee until a valid authorization code is received.

Gain control of the borders to discourage illegal entry. *(McNamee, CHI)*

In addition to removing the Federal, state and local benefits for illegal immigrants, the Federal government must do more to prevent illegal immigration at the border and to seek out those who get through or over stay their visa in the country's interior. Whether this is done electronically with drones, or ICE officers on the ground, or a wall extending from the Pacific Ocean to the Gulf of Mexico, control of the border in the North and South and those overstaying their visa is essential. It is critical for national safety and reducing or eliminating illegal immigration.

State establish its own boarder and business enforcement *(McNamee, CHI)*

Securing the country's borders is the responsibility of the Federal government. Proof of the Federal government's inability to secure the border is the 8 million plus illegal immigrants in the country. Due to this ineptness, California, Los Angeles and other states are paying the cost of illegal immigrants, not the Federal government. Illegal immigrants are large consumers of public services. The actual number is unclear without a more complete study. However, the savings to the state and local government should off-set the enforcement costs.