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ILLEGAL ALIENS

Assessing Estimates of Financial Burden on California





United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-258905

November 28, 1994

The Honorable Barbara Boxer
United States Senate

Dear Senator Boxer:

Concerns about the financial burden of providing public benefits and services to illegal aliens¹ have prompted several states, including California, to sue the federal government for repayment of these costs.² These states have sought reimbursement on the basis that immigration is exclusively a federal responsibility and that federal assistance should be provided to states disproportionately affected by illegal immigration. California has filed suits seeking reimbursement of state costs for incarceration and parole of illegal alien felons and Medicaid benefits provided to illegal aliens. California also plans to file an additional lawsuit for reimbursement of costs associated with elementary and secondary education.

To assist the Congress in evaluating California's request for federal reimbursement, you asked us to examine estimates of the fiscal impact of illegal aliens residing in California. Specifically, we examined (1) estimates presented in the Governor of California's 1994-95 budget published in January 1994, (2) the state's revised estimates published in September 1994,³ and (3) estimates by Urban Institute researchers published in a September 1994 report.⁴ We agreed to (1) review the studies' cost estimates for elementary and secondary education, Medicaid benefits, and adult incarceration, and if necessary, adjust the state's revised estimates to provide more reasonable estimates; (2) review the studies' estimates of revenues attributable to illegal aliens; and (3) summarize current federal efforts to improve estimates of the public fiscal impact of illegal aliens. In addition to this report, we have work

¹An illegal alien is a person who is in the United States in violation of U.S. immigration laws (8 U.S.C. 1365). Such an alien may have entered (1) illegally, without the Immigration and Naturalization Service (INS) inspection (undocumented) or using fraudulent documentation; or (2) legally, under a nonimmigrant visa or other temporary condition, but subsequently violated the visa's terms or other terms of entry.

²Florida, Arizona, Texas, and New Jersey also have filed suit for reimbursement.

³Phillip J. Romero and others, Shifting the Costs of a Failed Federal Policy: The Net Fiscal Impact of Illegal Immigrants in California (Sacramento, Calif.: California Governor's Office of Planning and Research, and California Department of Finance, Sept. 1994).

⁴Rebecca L. Clark and others, Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States (Washington, D.C.: The Urban Institute, Sept. 1994).

ongoing for other congressional requesters to review estimates of the fiscal impact of illegal aliens nationwide.

Results in Brief

Developing credible estimates of the costs and revenues for illegal aliens in California is difficult because limited data are available on this population's size, use of public services, and tax payments. This difficulty is compounded by the lack of consensus among researchers on the appropriate methodologies, assumptions, and data sources to use in estimating costs and revenues associated with illegal aliens.

After reviewing the three studies, we found that by selecting the most reasonable of their assumptions, we were able to adjust the state of California's most recent fiscal year 1994-95 cost estimates for education and adult incarceration of illegal aliens. We did not adjust the state's Medicaid cost estimate because the data we would need to do so are not currently available. Our adjusted fiscal year 1994-95 estimate of the state and local impact of illegal aliens on these three programs is \$2.35 billion. While this total is the same as the state's, estimates of the component costs differ—the adjusted education estimate is higher than California's; the adjusted incarceration estimate is lower. Although we believe our adjusted estimate is more reasonable, because of severe data limitations it is by no means precise.

Assessing the studies' estimates of tax revenue from illegal aliens was more difficult. Developing credible revenue estimates requires not only information on the size of the illegal alien population, but also on this population's income distribution, consumption patterns, and tax compliance rates. The limited data available to support the studies' assumptions precluded us from judging the reasonableness of their revenue estimates, which varied considerably. For example, the studies' estimates of state and local revenues from illegal aliens in California ranged from \$500 million to \$1.4 billion.

Given the inherent difficulties in developing precise estimates, greater agreement about appropriate assumptions and methodologies could help narrow the range of estimated costs and revenues. The Urban Institute study—conducted at the request of the Office of Management and Budget (OMB) and the Department of Justice—represents an initial effort to standardize and improve states' methodologies for estimating selected costs and revenues. However, our comparison of that study with the state of California's most recent estimates revealed many differences. This

suggests that further efforts to develop consensus on assumptions and methodologies could provide lawmakers with a better framework for assessing illegal aliens' fiscal impact.

Background

Illegal immigration has long been an important issue in California, which historically has been estimated to be the state of residence for nearly half of this country's illegal aliens. Illegal aliens are a concern not only because they are breaking immigration laws, but also because their presence affects a wide range of issues of public concern. These issues include the government costs of providing benefits and services to illegal aliens and the impact illegal aliens' presence has on the employment of U.S. workers.

In an effort to reduce the size of the nation's illegal alien population, estimated at 3 million to 5 million in 1986, the Congress enacted the Immigration Reform and Control Act of 1986 (IRCA). IRCA reduced the size of the illegal alien population by granting legal status to certain aliens already in the country⁵ and attempted to deter the inflow of illegal aliens by prohibiting employers from hiring any alien not authorized to work.

Despite a brief drop in illegal entries to the United States after IRCA was enacted, the size of the illegal alien population is now estimated to have exceeded the lower bound of the pre-IRCA estimate. INS and the Bureau of the Census estimated the population of illegal aliens ranged from 3.4 million to 3.8 million in 1992. At the same time, governments at all levels began experiencing fiscal crises that heightened public concerns about the costs of providing benefits and services to illegal aliens.

Illegal aliens are not eligible for most federal benefit programs, including Supplemental Security Income, Aid to Families With Dependent Children (AFDC), food stamps, unemployment compensation, and financial assistance for higher education. However, they may receive certain benefits that do not require legal immigration status as a condition of eligibility, such as Head Start and the Special Supplemental Food Program for Women, Infants, and Children.⁶ Furthermore, illegal aliens may apply for AFDC and food stamps on behalf of their U.S. citizen children. Though it

⁵IRCA extended legal status to aliens who entered the United States illegally prior to January 1, 1982, and had been living illegally in the country continuously since that time or who had worked in agriculture. IRCA has led to the legalization of almost 3 million individuals.

⁶In addition, while illegal aliens are ineligible by law for housing assistance, the Department of Housing and Urban Development (HUD) is allowing them to receive assistance until final regulations implementing eligibility restrictions are issued. HUD issued a proposed rule on eligibility of aliens for housing assistance on August 25, 1994 (59 Fed. Reg. 43900, 1994).

is the child and not the parent in such cases who qualifies for the programs, benefits help support the child's family.

Education, health care, and criminal justice are the major areas in which state and local governments incur costs for illegal aliens. Regarding education, the U.S. Supreme Court has held that states are prohibited from denying equal access to public elementary and secondary schools to illegal alien children.⁷ State and local governments bear over 90 percent of the cost of elementary and secondary education.

To provide for certain medical services, the Congress in 1986 revised the Social Security Act to stipulate that illegal aliens are eligible for emergency services, including childbirth, under the Medicaid program.⁸ The federal government and the state of California each pay 50 percent of the cost of these benefits for illegal aliens in California. In California and New York, illegal aliens are also eligible to receive Medicaid prenatal services.⁹

States also incur costs for incarcerating illegal alien felons in state prisons and supervising those released on parole. Section 501 of IRCA authorizes the Attorney General to reimburse states for the cost of incarcerating illegal aliens convicted of state felonies.

Illegal aliens generate revenues as well as costs; these revenues offset some of the costs that governments incur. Research studies indicate that illegal aliens do pay taxes, including federal and state income taxes, Social Security taxes, and sales, gasoline, and property taxes. Researchers disagree on the amount of the revenues illegal aliens generate and the extent to which these revenues offset government costs for benefits and services. However, they agree that the fiscal burden for aliens overall, including illegal aliens, falls most heavily on state and, especially, on local governments and that the federal government receives a large share of the taxes paid by aliens.¹⁰

⁷*Plyler v. Doe*, 457 U.S. 202 (1982).

⁸Section 9406 of the Omnibus Budget Reconciliation Act of 1986, Public Law No. 99-509. Illegal alien applicants for emergency Medicaid benefits in California must meet age, income, and asset limits required of all Medicaid applicants in the state, as well as residency requirements.

⁹California chose to provide these services at its own expense; a federal district court required New York to provide them (*Lewis v. Grinker*, CV-79-1740, E.D.N.Y., Mar. 14, 1991).

¹⁰Urban Institute researchers pointed out that a large share of the taxes paid by citizens also goes to the federal government.

Scope and Methodology

To examine the costs of elementary and secondary education, Medicaid, and adult incarceration associated with illegal aliens residing in California, we evaluated the reasonableness of the assumptions and methodologies underlying the cost estimates published by the state of California in its January and September 1994 studies and the Urban Institute in its Fiscal Impacts study. We also reviewed the revenue estimates for illegal aliens contained in California's September study and the Fiscal Impacts study. (California's January 1994 study did not include revenue estimates.) The California study included estimates for 13 types of federal, state, and local revenues; the Fiscal Impacts study's estimates were limited to 3 types of revenues. With assistance from Urban Institute researchers, we used the Fiscal Impacts study and another study published by the Urban Institute to extrapolate estimates for the remaining 10 types of revenues. This enabled us to compare the revenue estimates in the California and Fiscal Impacts studies. (See app. I for a detailed discussion of the methodology we used to develop these additional revenue estimates.)

We convened a panel of experts in May 1994 to obtain their opinions regarding the reasonableness of California's January 1994 estimates and the underlying methodologies, and interviewed state officials and private researchers. (See app. II for a list of the researchers we consulted.) In conjunction with related work we have done for several congressional requesters on the national fiscal impact of illegal aliens, we also examined the relevant research on the costs and revenues—at all levels of government—associated with illegal aliens. Some of the issues raised in these studies were relevant to our review, and we have incorporated them in our analysis.

Assessing California's cost estimates was complicated by the fact that the state's estimates are for California fiscal year 1994-95. That is, the estimates are projections of future costs and are only valid to the extent that the growth trends assumed in the projections hold true. We did not assess the validity of the growth trends. In addition, we did not independently verify California's administrative data for Medicaid and incarceration because we had no reason to believe that the data on expenditures and number of recipients in these programs presented any special concerns about reliability.¹¹

We did our work between April and September 1994 in accordance with generally accepted government auditing standards.

¹¹However, as indicated in the sections on education and incarceration, we did identify problems with the administrative data that made it difficult to identify illegal aliens receiving these services.

Cost Estimates Are Questionable Due to Limited Data and Varied Assumptions

As of September 1994, California estimated that it will spend \$2.35 billion on elementary and secondary education, Medicaid, and adult incarceration for illegal aliens in fiscal year 1994-95. California officials believe that these three programs represent the state's highest costs for illegal aliens. This estimate is \$80 million lower than California's January 1994 estimate primarily because the education estimate was reduced.

In the September estimate, California reduced its projections of the numbers of illegal aliens who will receive education or Medicaid services, or be incarcerated in state prisons. At the same time, however, this new estimate added in administrative costs not previously included and for education and adult incarceration, added capital costs. The net effect of these adjustments is shown in table 1.

Table 1: Estimates of Education, Medicaid, and Adult Incarceration Costs for Illegal Aliens in California

Dollars in millions

Program	State of California initial estimate ^a	State of California revised estimate ^a	Fiscal Impacts study ^b	Adjusted estimate ^c
Elementary and secondary education (state and local costs)	\$1,654	\$1,531	\$1,289	\$1,596
Medicaid (state costs)	400	395	113-167	395
Adult incarceration (state costs)	376	424	368	360
Total	\$2,430	\$2,350	\$1,770-1,824	\$2,351

Note: The state of California initial estimate appeared in its January 1994 study; its revised estimate, in its September 1994 study.

^aEstimates are for California FY 1994-95, which began July 1, 1994.

^bEducation estimate is for academic year 1993-94 and incarceration estimate for 1994. Cost estimate for Medicaid is a "benchmark" for California FY 1992-93, based on cost data on aliens legalized under IRCA.

^cEstimates are for California FY 1994-95. The education and incarceration figures are adjusted estimates; the Medicaid figure is the September 1994 estimate from the state of California.

The Urban Institute's Fiscal Impacts study estimated costs lower than California's estimates for all three programs (see table 1). This is in part because the Fiscal Impacts study estimated costs for earlier years—the education estimate was for the 1993-94 school year; Medicaid, for fiscal year 1992-93; and adult incarceration, for 1994. Other reasons for the lower estimates in the Fiscal Impacts study varied by program, as described in the following sections.

The cost estimates in the California and Fiscal Impacts studies are questionable because of the limited direct data available on illegal aliens and certain assumptions made by the studies. For example, estimates of the cost of education—the single largest cost associated with illegal aliens—are based entirely on assumptions about the size and characteristics of the illegal alien population. However, by combining selected data and assumptions from both California’s September 1994 estimates and the Fiscal Impacts study, we developed adjusted estimates for education and adult incarceration that we believe are more reasonable than either study’s original estimates. We did not adjust the state’s Medicaid estimate because the necessary data are not currently available.

It is important to note that none of the estimates of education or incarceration costs represents the amount that would actually be saved if California did not educate or incarcerate illegal aliens. This is because the estimates are based on mean costs: total cost divided by total number of users. Mean costs include both variable costs, which are affected by the number of individuals using the service, and fixed costs—such as certain administrative costs—which are not. The amount that would be saved if illegal aliens did not receive these services could either be less than the mean costs or greater (for example, if new schools would otherwise have to be built).¹²

Lack of Direct Data Precluded Developing Precise Education Cost Estimate

The state of California now estimates that it will spend \$1.5 billion to educate illegal alien children in fiscal year 1994-95. The Fiscal Impacts study estimated California’s education costs at \$1.3 billion for school year 1993-94. The Fiscal Impacts estimate was lower not only because it covered an earlier year, but also because the study relied on a different data source to develop its per pupil cost figure. Selecting the components of each estimate that we believe are more reasonable, we adjusted California’s fiscal year 1994-95 estimate upward to \$1.6 billion.

The education cost estimates were derived by multiplying estimates of the following components: (1) the size of the state’s illegal alien population, (2) the percentage of this population that is of school age, (3) the percentage of school-aged illegal aliens enrolled in school, (4) the

¹²Likewise, California’s revised Medicaid cost estimate does not represent the amount that would be saved if illegal aliens did not receive services. Although the estimate is based on cost data for individual recipients, it includes an administrative cost component based on mean costs.

percentage of school days actually attended,¹³ and (5) the statewide average cost per pupil. The studies used an indirect method¹⁴ to estimate the number of illegal alien children in school because school districts do not collect information on the immigration status of students. According to California state officials, many school districts believe the U.S. Supreme Court decision, Plyler v. Doe, prohibits them from asking about immigration status.

To develop each of the cost components, the state of California and Urban Institute researchers relied on research studies and published estimates. For their estimates of the illegal alien population, California's September 1994 study and the Fiscal Impacts study used recently revised INS population estimates; the small difference between the two estimates can be explained by the different years being estimated (see table 2). For the adjusted estimate, we used California's September estimate of 1.7 million illegal aliens because it is for the same time period (fiscal year 1994-95).

¹³The Fiscal Impacts study did not need to include this component in its formula because of the way it calculated the average cost per pupil (see p. 10).

¹⁴Indirect methods rely on data on similar populations or populations that include illegal aliens in addition to other groups.

Table 2: Estimated State and Local Costs of Elementary and Secondary Education for Illegal Aliens in California

Study	(1)	(2)	(3)	(4)	(5)	(6)
	Illegal alien population	Percent of illegal aliens of school age	Percent of school-aged illegal aliens enrolled in school	Percent of school days actually attended	Average annual cost per pupil	(1x2x3x4x5=6) Total costs (in millions)
State of California initial estimate ^a	2,258,000	20.2	86	^b	\$4,217	\$1,654
State of California revised estimate ^a	1,722,250	21.7	84	98.2	4,977	\$1,531
Fiscal Impacts study ^c	1,566,000	26.4	74	^b	4,199	\$1,289
Adjusted estimate ^a	1,722,250 ^d	26.4 ^e	74 ^e	98.2 ^f	4,830 ^g	\$1,596

Note: The state of California initial estimate appeared in its January 1994 study; its revised estimate, in its September 1994 study.

^aEstimate is for California FY 1994-95.

^bThe study does not include this component in its formula.

^cEstimate is for academic year 1993-94.

^dPopulation estimate used by the state of California (Sept. 1994).

^ePercentage used in the Fiscal Impacts study.

^fPercentage used by the state of California (Sept. 1994).

^gCost estimate used by the state of California (Sept. 1994) (\$4,977), reduced by the amounts included in this per pupil figure for interest payments on bonds for school facilities (\$69) and adult education programs (\$78).

The state had previously estimated its illegal alien population at 2.3 million—a figure that was probably too high. The basis of California's January 1994 population figure was a 1993 Census Bureau estimate of 2.1 million illegal aliens in California; the state assumed this population would grow by 100,000 each year. This assumption was based on the Census Bureau estimate that the illegal alien population is growing nationally by 200,000 each year and that about 50 percent of illegal aliens live in California. However, researchers at the Census Bureau and INS have recently estimated that the percentage living in California may be lower,

ranging from about 38 to 45 percent.¹⁵ Moreover, INS estimates that the size of the illegal alien population is smaller, but growing more rapidly.¹⁶

California's September 1994 study and the Fiscal Impacts study both relied on an indirect method to estimate the percentage of the illegal alien population that is of school age and the percentage of school-aged illegal aliens enrolled in school. The method involves constructing a proxy population based on INS estimates of the breakdown of the illegal alien population by country of origin. The proxy population consists of people who entered the United States from countries that contribute most of the illegal alien population. The education cost estimates in the California and Fiscal Impacts studies are based on 1990 Census data on the age distribution and school enrollment of the studies' proxy populations.

However, the studies differed in their assumptions about the appropriate age range to include—the Fiscal Impacts study included illegal aliens aged 5 to 19, while California included those aged 5 to 17 in its estimate. This difference resulted in the Fiscal Impacts study estimating a higher percentage of school-aged illegal aliens, but a lower percentage enrolled in school, to adjust for the likelihood that fewer 18- and 19-year-olds attend high school (see table 2). For the adjusted estimate, we used the Fiscal Impacts study's assumptions for these two components of the cost estimate because data indicate some 18- and 19-year-olds do attend high school.

California's September 1994 estimate included a component that adjusted its enrollment estimate, which was based on fall enrollment, for the percentage of school days actually attended ("average daily attendance"). This adjustment was necessary because California's average cost per pupil is based on average daily attendance, not fall enrollment. This adjustment was not needed in the Fiscal Impacts study because its estimate of per pupil cost was based on fall enrollment. Our adjusted estimate used California's figure for the percentage of school days actually attended (98.2) because it also used California's figure for average cost per pupil with some adjustments (as explained in the following paragraphs).

¹⁵See Edward W. Fernandez and J. Gregory Robinson, "Illustrative Ranges of the Distribution of Undocumented Immigrants by State," unpublished report, U.S. Bureau of the Census, 1994; and Robert Warren, "Estimates of the Unauthorized Immigrant Population Residing in the United States, by Country of Origin and State of Residence: October 1992," unpublished report, U.S. Immigration and Naturalization Service, Apr. 29, 1994.

¹⁶For example, Census estimated the illegal alien population at 3.8 million nationwide as of October 1992; INS estimated this number at 3.4 million. However, INS estimates that the illegal alien population is growing more rapidly at 300,000 per year.

The per pupil cost figure California included in its September 1994 estimate was considerably higher than that used in its January 1994 estimate—\$4,977 compared with \$4,217—even though both estimates were for fiscal year 1994-95. Both figures were derived from a statewide average based on state and local public school expenditures. However, state officials told us that their September estimate included additional funding sources that are used to pay education costs, as well as some additional costs (for example, debt service costs on bonds for school facilities and certain administrative costs).

The Fiscal Impacts study, in contrast, used state-specific data on current expenditures from the National Center for Education Statistics (NCES). The study used these data to develop standardized cost estimates for the seven states included in the study.¹⁷ However, while the NCES data are one possible source of education cost data, there is no agreed-upon standard on the expenditures that should be included in calculating per pupil costs, according to the authors of the Fiscal Impacts study and budget and education experts we spoke with. Using the NCES data produced a lower estimate of California's per pupil costs (\$4,199) because the data do not include the range of funding sources used in the state's cost estimate, nor do they include capital costs such as debt service on bonds.

For the adjusted estimate, we used California's September 1994 per pupil cost figure but subtracted two questionable cost items to yield an adjusted figure of \$4,830. The state had included \$78 per pupil for adult education costs; state officials acknowledged that this amount should not have been included. In addition, we subtracted the interest portion of the debt service cost—\$69 per pupil. Experts disagree about how to treat debt service in calculating per pupil expenditures; however, we identified OMB cost principles that may provide a standard for treating such capital costs.¹⁸ These cost principles establish standards for determining the allowable costs of federal grants, contracts, and other agreements administered by state and local governments. The OMB cost principles specify that depreciation is an allowable cost, but interest payments are not.¹⁹

¹⁷The other states are New York, Texas, Florida, Illinois, New Jersey, and Arizona.

¹⁸OMB Circular A-87, Cost Principles for State and Local Governments, effective January 15, 1981.

¹⁹The cost principles note that interest payments are an unallowable cost except when authorized by federal legislation or when they involve rental costs and have been approved by a grantor agency.

Experts we spoke with suggested that statewide average cost data may not be the best measure of the costs of providing illegal alien children with a public education. They suggested that researchers should instead use estimates based on the costs incurred by districts where illegal aliens are believed to be most heavily concentrated, such as Los Angeles County. However, the Fiscal Impacts study reported, and state officials concurred, that the necessary data are not available. State officials said they did not believe more localized cost data would result in estimates significantly higher or lower than estimates based on the statewide average.

Legal Restrictions Hamper Collection of Medicaid Data

On the basis of congressional action in 1986, illegal aliens are eligible for emergency Medicaid services only. In addition, some legal aliens are eligible for emergency services only. These include foreign students, temporary visitors, and aliens granted temporary protected status. California has estimated that it will spend \$395 million for Medicaid benefits provided to illegal aliens during fiscal year 1994-95.

The Fiscal Impacts study, while questioning the accuracy of California's estimate, did not develop an alternative estimate because data were not available to do so. Instead, it developed a "benchmark" cost range for purposes of comparison. However, it is questionable whether this benchmark provides a good basis for comparison.

We made no adjustments to the state of California's Medicaid estimate because the data needed to correct for elements that lead to possible over- or understatement of costs are not currently available. The state's estimate was based on administrative cost data for services provided to all individuals eligible for emergency Medicaid services only, not just illegal aliens. California's estimate may thus include some legal aliens because, at the time this estimate was developed, agency officials were legally prevented from inquiring about the immigration status of people who applied for emergency Medicaid benefits.²⁰ California state officials do not have data on the extent to which legal aliens may be receiving these limited benefits.

California officials told us that their cost estimate does not include all the illegal aliens they are serving under the Medicaid program. They said it does not include costs for illegal aliens who (1) are tracked in other eligibility categories, such as those for pregnant women and children, or

²⁰The California state court decision, *Crespin v. Coye*, Civ. Action No. 636715-6, California Superior Court, 1992, barred officials from asking for this information.

(2) provide fraudulent documents to get full Medicaid benefits. However, state officials noted that they do not have data on the costs of Medicaid services provided to these illegal aliens.

The Fiscal Impacts study used Medicaid data on formerly illegal aliens who were granted legal status under IRCA²¹ as a “benchmark” against which to assess the estimates of the seven states included in the study.²² The legalized alien population has many of the same characteristics as the current illegal alien population and, therefore, provides a useful basis for comparison, according to this study. The estimated range that the Fiscal Impacts study used to assess California’s Medicaid estimate—\$113 million to \$167 million—was considerably lower than the state’s estimate for people receiving emergency services only (see table 3). Some of the difference between California’s Medicaid estimates and those in the Fiscal Impacts study may be due to California’s inclusion of certain legal aliens in its estimate.

However, differences between legalized and illegal aliens’ use of Medicaid may also explain why California’s estimate was higher. For example, the Fiscal Impacts study acknowledged that illegal aliens may be more likely than legalized aliens to use emergency Medicaid services because they know their immigration status will not be questioned. In addition, California’s administrative data indicate that illegal aliens have somewhat higher average Medicaid expenditures than aliens who were granted legal status under IRCA. Furthermore, differences in demographic characteristics of the two populations suggest that they may differ in their ability to qualify for Medicaid.²³ In sum, these considerations raise doubt about whether the Fiscal Impacts study’s benchmark cost range was based on a comparable population.

²¹Under IRCA’s legalization programs, most eligible aliens were barred from receiving most federal benefits—including Medicaid—for 5 years after being granted temporary resident status. During that time they were, however, eligible for emergency Medicaid services. Most legalized aliens are no longer restricted from receiving full Medicaid benefits. The benchmarks developed by the Fiscal Impacts study were based on legalized aliens who, at the time, were eligible for emergency services only, according to the study’s authors.

²²The Fiscal Impacts study created its “benchmark” estimate ranges for each state by multiplying per capita Medicaid costs for legalized aliens by the estimated number of illegal aliens in that state in 1993.

²³For example, the populations differ in their age distributions and poverty levels, according to the Fiscal Impacts study.

Table 3: Estimated State Costs for Medicaid Emergency Services Provided to Illegal Aliens in California

Dollars in millions

Study	Estimated cost
State of California initial estimate ^a	\$400
State of California revised estimate ^a	395
Fiscal Impacts study ^b	113-167

Note: The state of California initial estimate appeared in its January 1994 study; its revised estimate, in its September 1994 study.

^aEstimate is for California FY 1994-95.

^bCost estimate is a "benchmark" for California FY 1992-93 based on cost data on aliens legalized under IRCA.

California state officials' inability to ask about immigration status has, they believe, hindered their ability to fully account for all illegal aliens receiving Medicaid. The state court injunction that prohibited officials from asking applicants for emergency Medicaid benefits about their immigration status was initially overturned by the California Court of Appeal. However, the injunction is currently in effect pending a decision from the California Supreme Court.²⁴ State officials told us they believe that if the injunction is ultimately lifted, it would enable them to collect more accurate data on the number of illegal aliens receiving emergency Medicaid services.

California's Adult Incarceration Cost Estimate Included Some Legal Aliens

The state of California estimated that it will spend nearly \$424 million in fiscal year 1994-95 to incarcerate illegal aliens in its prisons. In contrast, the Fiscal Impacts study estimated California's adult incarceration costs for 1994 at about \$368 million. The state's estimate was higher primarily for two reasons—state officials estimated a higher illegal alien prison population and included debt service costs on bonds for prison facilities. We adjusted California's estimate downward to \$360 million based on what we believe are the more reasonable of the assumptions used to develop the estimates (see table 4).

²⁴Crespin v. Coye, No. A061044, California Court of Appeal, First Appellate District, August 12, 1994. This case overturned the lower court's injunction barring state officials from asking applicants about their immigration status. However, the plaintiff, Crespin, has asked the California Supreme Court to consider an appeal of the Court of Appeal's ruling. Crespin was granted a stay of the lifting of the injunction pending the California Supreme Court's decision.

Table 4: Estimated State Costs of Adult Incarceration for Illegal Aliens in California

Study	(1)	(2)	(3)	(4)	(5)
	Number of illegal alien inmates	Average annual cost per inmate	(1x2=3) Total operating costs (in millions)	Facility debt service costs allocated to illegal alien inmates (in millions)	(3+4=5) Total cost for adult illegal alien inmates (in millions)
State of California initial estimate ^a	18,112	\$20,751	\$376	•	\$376
State of California revised estimate ^a	17,958	20,761	373	\$51	\$424
Fiscal Impacts study ^b	15,109	24,336	368	•	\$368
Adjusted estimate ^a	16,162 ^c	20,761 ^d	336	24 ^e	\$360

Note: The state of California initial estimate appeared in its January 1994 study; its revised estimate, in its September 1994 study.

^aEstimate is for California FY 1994-95.

^bEstimate is for 1994.

^cFigure used in the state of California's September 1994 cost estimate (17,958), reduced 10 percent (1,796) based on results of a survey of foreign-born inmates in California prisons conducted for the Fiscal Impacts study.

^dFigure used in the state of California's September 1994 estimate.

^eFigure used in the state of California's September 1994 cost estimate (\$51 million), reduced by the amount included in the figure for interest payments on bonds for prisons (\$27 million).

The Fiscal Impacts study's estimate of the number of illegal aliens in California's prisons is more reliable than the state's because the study directly estimated the number of illegal aliens. INS officials assisted in this study by matching prison records against several INS databases to determine prisoners' immigration status and by conducting follow-up interviews with a sample of prisoners whose status could not be determined through the INS database matches alone.

These data on prisoners' immigration status were developed specifically for the Fiscal Impacts study and were not available to the state of California as it prepared its estimate. The state's estimate was overstated because it was based on the number of inmates with INS detainers. This category, which refers to inmates who are subject to an INS hearing and possible deportation at the completion of their prison sentences, also

includes legal aliens who are deportable because of the nature of the crimes they committed.²⁵

The Fiscal Impacts study concluded that the state's estimate of California's adult illegal alien prison population was overstated by about 10 percent. We therefore adjusted the state's population estimate downward by 10 percent to reflect this new information.

As with their education cost estimates, the state and the Fiscal Impacts study used different data sources to estimate the average cost per inmate. The Fiscal Impacts study relied on data from the 1990 Census of State Prisons and adjusted for inflation using the Consumer Price Index. The study used this data source because it provided a uniform basis for comparing the seven states' estimates. However, the Census of State Prisons cost data, like the NCES education cost data the Fiscal Impacts study used, do not represent an agreed-upon standard for calculating the cost per inmate.

Using the Census of State Prisons data and adjusting for inflation resulted in a higher estimate of per inmate cost than using the cost data from California's Department of Corrections, as shown in table 4. For the adjusted estimate, we used the state's September estimate of per inmate cost because it was based on more recent data than the Census of State Prisons.

California's revised adult incarceration cost estimate is nearly 13 percent higher than its previous estimate of about \$376 million for fiscal year 1994-95 (see table 4). While the state slightly lowered its estimates of the illegal alien prison population and the per inmate cost, it added a new cost item—\$51 million for debt service on bonds for prison facilities. As with the state's education estimate, we subtracted the interest portion of this amount—\$27 million—based on OMB cost principles for treating capital costs (see p. 11).

Revenue Estimates Vary

As with the cost estimates, estimating the tax revenues collected from illegal aliens is difficult because of the lack of direct data on this population. Researchers must rely on indirect estimation methods that

²⁵INS apprehends aliens and deports them as criminal aliens if they have been (1) convicted of a crime involving moral turpitude committed within 5 years of entry and sentenced to confinement for a year or more or (2) convicted of two or more crimes involving moral turpitude regardless of whether they were confined (8 U.S.C. 1251). Crimes of moral turpitude include murder, manslaughter, rape, and sodomy. An alien who enters the country legally and is convicted of a deportable crime is deportable as a criminal alien.

make numerous assumptions about this population. These include assumptions about income, life styles, consumption patterns, tax compliance, and population size. Differences in assumptions about these variables can generate considerable variation in estimates of revenues from illegal aliens.

The September 1994 study by the state of California and the Fiscal Impacts study each developed estimates of revenues from illegal aliens in California. However, variations in the years of the estimates and the types of revenues estimated complicate comparison of the studies. To facilitate comparison, we used the Fiscal Impacts study and another study by an Urban Institute researcher to extrapolate estimates of selected revenues not included in the Fiscal Impacts study. We found that although the extrapolated revenue estimates fell within the range estimated by California, the estimates still varied considerably.

This variation reflects differences in the studies' methodologies and assumptions. The California study based its estimates on projections from studies that estimated revenues from illegal aliens in various locations: (1) Los Angeles County, (2) California, (3) Texas, and (4) the United States. The Fiscal Impacts study used revenue estimates from a single study the researchers regarded as the best available (a study of Los Angeles County) and adjusted these estimates to project them to the state of California. The limited data available to support the assumptions of the California study and the Fiscal Impacts study precluded us from drawing a conclusion about which, if either, of these studies provides a reasonable estimate of revenues from illegal aliens in California.

Estimates of State and Local Revenues

The January 1994 cost estimates from California did not include estimates of any revenues from illegal aliens in California; hence, they provided an incomplete picture of the fiscal impact of this population. In contrast, the September 1994 California study included an estimate of eight types of state and local revenues for fiscal year 1994-95.²⁶ The study provided an estimate ranging from a low of \$528 million to a high of \$1.4 billion, with a median estimate of \$878 million. This estimate was based on projections by the state of several studies on the fiscal impact of illegal aliens in different geographical areas. The high estimate incorporated parameters from these studies that, according to the state, most magnify the

²⁶They are state income tax, state sales tax, state and local property tax, state vehicle license and registration fees, state excise taxes, state gasoline taxes, state lottery revenues, and local sales taxes.

contributions of illegal aliens; the low estimate incorporated parameters that most deflate their contributions.

The Fiscal Impacts study estimated that illegal aliens in California paid \$732 million in 1992 in three types of taxes: state income taxes, state sales taxes, and state and local property taxes. However, the Fiscal Impacts study did not develop estimates of the five other types of state and local revenues included in the state's study. To compare the two sets of estimates, we developed estimates of these five types of revenues using the methodology from the Fiscal Impacts study and a national study by an Urban Institute researcher. (App. I describes our methodology.) Adding our extrapolated estimate for these five types of revenues to the \$732 million estimate for the three types of revenues produced a total state and local tax revenue estimate of \$1.1 billion for 1992.

The California study and the Fiscal Impacts study reflect differing views about the magnitude of revenues generated by illegal aliens in California. If the estimate extrapolated from Urban Institute studies were updated to fiscal year 1994-95, it would probably be at the high end of the range estimated by California. In contrast, the California study maintained that its median estimate of state revenues probably overstated revenues and should be treated as an upper bound. (In California's study, state revenues constituted over 75 percent of total estimated revenues from state and local sources.)

Estimates of Federal Revenues

The September 1994 California study included an estimate for fiscal year 1994-95 of five types of federal revenues from illegal aliens in California.²⁷ The study provided an estimate ranging from a low of \$542 million to a high of \$2 billion, with a median estimate of \$1.3 billion.

The Fiscal Impacts study did not estimate any federal revenues from illegal aliens in California. However, we used the study's revenue estimation assumptions for California, along with a national study by an Urban Institute researcher, to extrapolate estimates of the five types of federal revenues estimated by California. (App. I describes our methodology.) This produced a federal revenue estimate of \$1.3 billion for 1992.

²⁷These are income tax, excise tax, Federal Insurance Contributions Act (FICA) tax, unemployment insurance tax, and gasoline tax.

If this estimate were updated to fiscal year 1994-95, it would probably be between the California study's median and high estimates. However, the California study maintained that both the high and median estimates probably overstated the amount of federal revenues generated by illegal aliens in California. As a result, there is no agreement about the magnitude of federal revenues generated by this population.

Net Costs Unclear

California's September 1994 study estimated not only individual costs and revenues but also the state's net cost (costs minus revenues) for illegal aliens. In contrast, the Fiscal Impacts study did not estimate net costs for illegal aliens in California because it examined only selected costs and revenues. We identified one other study that attempted to provide a comprehensive accounting of the costs and revenues for illegal aliens in California.²⁸ This study, by Donald Huddle, included an estimate of the net cost for this population in 1992.

However, for several reasons, we were unable to draw any conclusion about California's net cost for illegal aliens. In the case of the California study, we were unable to assess the reasonableness of its net cost estimate because data limitations precluded us from assessing California's revenue estimates. With regard to the study by Huddle, we could not extract an estimate of the net cost to the state of California because the study's cost estimates did not provide a breakdown of federal, state, and local costs. Consequently, we were unable to compare the study's estimates with those in California's study.

Federal Efforts Aimed at Improving Cost and Revenue Estimates

Recognizing the problems associated with estimating the fiscal impact of illegal aliens, OMB and the Department of Justice requested the Fiscal Impacts study to help the federal government assess states' requests for reimbursement of illegal alien costs. The study represents an initial effort to standardize and improve states' methodologies for estimating selected costs and revenues. However, because the study was released recently, it is too early to know whether, and to what extent, California and the other six states in the study will agree with and accept the study's efforts to standardize and improve the states' methodologies. OMB officials have not yet indicated how they will use the study in assessing states' requests for federal reimbursement of illegal alien costs.

²⁸Donald Huddle, The Net Costs of Immigration to California (Washington, D.C.: Carrying Capacity Network, Nov. 4, 1993).

One other federal effort is under way to improve estimates of illegal aliens' fiscal impact. The U.S. Commission on Immigration Reform is engaged in a long-term project that includes an effort to develop better estimates of the fiscal impact of legal and illegal aliens. This bipartisan congressional commission, created by the Immigration Act of 1990, is working on a report to the Congress on a wide range of immigration issues. The final report is due in 1997; the Commission provided an interim report to the Congress in September 1994. As part of its study, the Commission has convened a task force of independent experts to review some of the estimates of aliens' fiscal impact and develop a better understanding of how to measure this impact.

Conclusions

Our review of estimates of the fiscal impact of illegal aliens shows that the credibility of such estimates is likely to be a persistent issue, given the limited data available on this population and differences in key assumptions and methodologies used to develop the estimates. For example, the studies we examined differed in their treatment of capital costs, the age groups they used to estimate education costs, and their methodologies for estimating revenues.

While it probably will be difficult to obtain better data on the illegal alien population, greater agreement about appropriate assumptions and methodologies could help narrow the range of estimated costs and revenues. We believe state and federal officials need to reach consensus on the approaches that should be used in developing estimates of illegal aliens' net fiscal impact. This consensus would not necessarily produce estimates that are completely accurate, but at least it would produce estimates viewed as reasonable, given the limited data available. Instead of being confronted with an array of competing estimates, lawmakers would have information that would be more useful in assessing illegal aliens' fiscal impact.

Agency Comments

We obtained written comments on a draft of this report from California state officials and the Urban Institute researchers who authored the Fiscal Impacts study. While California officials found no factual errors in the report, they argued that the report overstates data problems associated with estimates of costs for illegal aliens. They also maintained that the different studies' cost estimates were essentially identical. However, we found that the estimates did vary; moreover, most were based on indirect methods whose reliability is unknown. As noted in this report, we

identified a number of problems with the cost estimates for education, Medicaid, and incarceration. California officials also provided comments on the Medicaid section that we incorporated where appropriate. (See app. III.)

Urban Institute researchers agreed with our assessment of the different estimates and their relative strengths and weaknesses. The researchers also provided technical comments that we incorporated where appropriate. (See app. IV.)

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request.

If you or your staff have any questions concerning this report, please call me on (202) 512-7215. Other GAO contacts and staff acknowledgments are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "Jane L. Ross". The signature is written in a cursive, flowing style.

Jane L. Ross
Director, Income Security Issues

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Abbreviations

AFDC	Aid to Families With Dependent Children
FICA	Federal Insurance Contributions Act
HUD	Department of Housing and Urban Development
INS	Immigration and Naturalization Service
IRCA	Immigration Reform and Control Act
NCES	National Center for Education Statistics
OMB	Office of Management and Budget

Methodology for Extrapolating Revenue Estimates From Studies by Urban Institute Researchers

This appendix describes the methodology we used to extrapolate estimates of selected tax revenues from illegal aliens in California from two studies by Urban Institute researchers. The most recent, Fiscal Impacts of Undocumented Aliens: Selected Estimates for Seven States (the Fiscal Impacts study), estimated three types of state and local revenues from illegal aliens in California and other states (state income tax, state sales tax, and state and local property tax) for 1992. An earlier study, Immigrants and Taxes: A Reappraisal of Huddle's "The Cost of Immigrants" (the Immigrants and Taxes study), estimated 13 types of federal, state, and local revenues from illegal aliens in the United States for 1992. We used these studies to develop estimates of five types of state and local revenues (state excise tax, state lottery revenue, local sales tax, state vehicle license and registration fees, and state gasoline tax) and five types of federal revenues (income tax, excise tax, Federal Insurance Contributions Act [FICA] tax, unemployment insurance tax, and gasoline tax) from illegal aliens in California in 1992.

The first section summarizes the methodology used by the two studies to estimate revenues from illegal aliens. The second section describes how we used this methodology to extrapolate estimates of state and local revenues. The third section describes how we extrapolated estimates of federal revenues.

Revenue Estimation Methodology Used by Urban Institute Researchers

Both studies by Urban Institute researchers employed a methodology called "ratio generalization," which takes detailed revenue estimates for illegal aliens in one locality and generalizes them to other areas. The studies used estimates of taxes paid per capita and per household by illegal aliens in Los Angeles County in 1992.²⁹ They used two factors to adjust for differences between Los Angeles County and the geographic areas they were concerned with (California in the Fiscal Impacts study and the United States in the Immigrants and Taxes study).

First, they corrected for differences in incomes between illegal aliens in these areas and those in Los Angeles County (ratio 1). Second, they corrected for differences in the tax rate structure (for each tax) between these areas and Los Angeles County. The second correction is itself the product of two factors: (1) the ratio of per capita tax payments for legal residents in California (or the United States) to Los Angeles County (ratio 2) and (2) the ratio of per capita income for legal residents in Los Angeles

²⁹These estimates were developed by the Los Angeles County Internal Services Department. See Impact of Undocumented Persons and Other Immigrants on Costs, Revenues and Services in Los Angeles County, Nov. 6, 1992.

County to California (or the United States) (ratio 3).³⁰ As the following formula indicates, the revenue estimate for each tax is the product of the per capita tax for illegal aliens in Los Angeles County, the three ratios, and the estimated size of the illegal alien population:

$$pc\ tax\ ilgl\ aliens_{LA} \times \frac{pc\ inc\ ilgl\ aliens_{CA}}{pc\ inc\ ilgl\ aliens_{LA}} \times \frac{pc\ tax\ lgl\ res_{CA}}{pc\ tax\ lgl\ res_{LA}} \times \frac{pc\ inc\ lgl\ res_{LA}}{pc\ inc\ lgl\ res_{CA}} \times ilgl\ alien\ pop_{CA} = rev\ est$$

Methodology for Extrapolating Estimates of State and Local Revenues

For each of the five types of state and local revenues we estimated, we began with the estimate of the per capita tax payment by illegal aliens in Los Angeles County in 1992.³¹ We then took the values used in the Fiscal Impacts study for ratios 1 and 3, as well as the size of California's illegal alien population.³²

We used several sources to obtain values for ratio 2, the ratio of per capita tax payments for legal residents in California to Los Angeles County. We took the values cited in the Immigrants and Taxes study for the per capita tax payments for legal residents in Los Angeles County.³³ To estimate per capita tax payments for legal residents in California, we used Census Bureau data on revenue collected from California residents for each of the five types of revenues and divided these amounts by the size of California's population.³⁴

³⁰The studies differ somewhat in the groups they include as legal residents in calculating these ratios.

³¹The estimated per capita payments are cited in table 7c of the Immigrants and Taxes study.

³²Tables 6.6 and 6.7.

³³Table 7c.

³⁴We used the following Census Bureau sources: State Government Finances: 1992, tables 6 and 36 (gasoline tax, excise taxes, and vehicle license and registration fees); and Government Finances: 1990-91, table 29, and Statistical Abstract of the United States: 1994, tables 26 and 482 (local sales taxes and lottery revenues). Because of variations in the years of the data, our estimates of per capita revenues are for various years: gasoline tax, excise taxes, and vehicle license and registration fees are for 1992; lottery revenues, for fiscal year 1992; and local sales taxes, for 1990-91.

Methodology for Extrapolating Estimates of Federal Revenues

For each of the five types of federal revenues we estimated, we began with the estimate of the per capita tax payment by illegal aliens in Los Angeles County in 1992.³⁵ We then took the values used in the Fiscal Impacts study for ratios 1 and 3, as well as the size of California's illegal alien population.³⁶

In estimating ratio 2, the ratio of per capita tax payments for legal residents in California to Los Angeles County, we were able to obtain data on per capita taxes by state for only one of the five types of federal revenue—income tax. We used Census Bureau data on per capita federal income tax collected from California residents to estimate per capita income tax payments for legal residents in California.³⁷ For our estimates of California per capita payments for the other four types of federal revenues, we used the United States average per capita tax payment figures cited in the Immigrants and Taxes study.³⁸ As before, we took the values cited in the Immigrants and Taxes study for the per capita tax payments for legal residents in Los Angeles County.

³⁵The estimated per capita payments are cited in table 7c of the Immigrants and Taxes study.

³⁶Tables 6.6 and 6.7.

³⁷Statistical Abstract of the United States: 1994, table 525. This source provides data for 1991.

³⁸Table 7c.

Expert Panel Participants and Other Experts Consulted

George J. Borjas, Professor of Economics, University of California, San Diego

Rebecca L. Clark, Program for Research on Immigration Policy, The Urban Institute, Washington, D.C.

Richard Fry,* Division of Immigration Policy and Research, Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C.

Briant Lindsay Lowell,* Division of Immigration Policy and Research, Bureau of International Labor Affairs, U.S. Department of Labor, Washington, D.C.

Demetrios Papademetriou,* Carnegie Endowment for International Peace, Washington, D.C.

Jeffrey S. Passel, Program for Research on Immigration Policy, The Urban Institute, Washington, D.C.

Stephen J. Trejo, Associate Professor of Economics, University of California, Santa Barbara

Sidney Weintraub,* Center for Strategic and International Studies, Washington, D.C.; Dean Rusk Chair in International Affairs, Lyndon B. Johnson School of Public Affairs, University of Texas, Austin

*Expert panel participant.

Comments From the California Department of Finance

STATE OF CALIFORNIA

PETE WILSON, Governor

DEPARTMENT OF FINANCE

OFFICE OF THE DIRECTOR
STATE CAPITOL, ROOM 1145
SACRAMENTO, CA 95814-4998



October 27, 1994

Cynthia Fagnoni, Assistant Director
Income Security Issues
Health, Education and Human Services Division
United States General Accounting Office
NGB/Income Security
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Fagnoni:

Thank you for the opportunity to provide comments on the GAO's proposed report on the estimates of the financial burden of illegal aliens in California. We have reviewed the document for any factual errors regarding California's finding as contained in our September 1994 report. Although we found no factual errors, we did find several areas that we believe are contradictory, misleading or confusing; specifically:

- Our most important comment is that the report's commentary is not consistent with your numerical analysis. As we understand it, your charge was to evaluate the reasonableness of California's fiscal estimates. Your analytical approach was to adjust the Urban Institute's estimates to make them comparable to California's. The report's Table 1 shows that your analysis and California's produced very similar cost estimates, that is a very important finding; that in spite of existing data limitations, different institutions and methodologies arrive at essentially identical results.

However, the wording of the report's conclusions emphasize imprecision in the data, not the close convergence of alternative scholars' methods to overcome those data limitations. Though we would all agree that better data can always improve the certainty of estimates, your report overgeneralizes this issue by lumping together the conclusion that the reliability of data for the number of illegal adults incarcerated in our state prisons are the same as projecting the number of illegal children in our schools. In the first case, we can identify the names of the individuals for INS to then make a determination regarding their legal status. However in the second, estimators have used a proxy population because the names of undocumented children in our schools is unknown.

See pp. 20-21.

-2-

In the past year, consensus has been achieved about several important data and methods, for which there once was little agreement. The most important one is the size of the overall illegal population. Methods for estimating the illegal K-12 education caseload is another. In sum, then, we feel the report overstates data problems, fails to highlight the areas of agreement, fails to distinguish the degrees of reliability of the data for the various estimates or to note what your own analysis demonstrates: that different analyses have overcome these data deficiencies and come to essentially identical conclusions.

See p. 12.

- The segment beginning on page 19 on Medicaid data indicates a statement in the last paragraph that "The state's estimate is based on administrative cost data on all persons receiving emergency Medicaid services, not just illegal aliens". This statement as it is written is factually misleading. The data we have provided is for emergency services provided only to OBRA Medi-Cal eligible recipients who are in the eligibility categories for OBRA illegal aliens. They do not include data for emergency services, i.e., utilization, cost per eligible, cost per user, for all Medi-Cal eligible recipients (cash grant, medically needy, long-term care, aged, blind and disabled, etc.). Given that California collects administration data specifically for OBRA eligibles, the data on actual cost per users of emergency services are substantially more reliable than if we had to make projections of utilization based upon administrative data for all Medi-Cal eligibles.

See pp. 12-13.

- On page 20, the second paragraph also includes a misrepresentation of the facts. While your statement is true that California does not have data on the extent to which legal aliens may be receiving emergency Medicaid services, it is also equally true that we do not have data on the number of illegal aliens who receive unrestricted Medicaid services because they use fraudulent documents to obtain eligibility.

In addition, with respect to the next statement, "However, they also told us they believe their administration data on emergency services may not include all of the illegal aliens they are serving under the Medicaid program". We don't just believe, we have actual data that tracks by aid code the number of OBRA's in our other aid categories. I have attached a report (Attachment A) by Dr. Neil Throckmorton of the Department of Health Services that explains in more detail the number of average monthly eligibles for 1992-93 and as of June 1994 and their general aid category for reporting purposes. As I have also stated in the past, we have been conservative in our estimates by not including these eligibles and expenditure data in our projections of illegal alien cost. These eligibles are part of a larger group of eligibles who have unrestricted access to health services. Therefore, we cannot estimate the precise expenditures to the illegals in these categories vs. the expenditures for legal citizens. Irrespective, these individuals are receiving their Medicaid services as a result of mandated eligibility by the Federal Government.

Appendix III
Comments From the California Department
of Finance

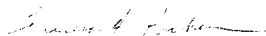
-3-

See p. 13.

- Regarding the findings on page 22 on Medicaid expenditures, while we certainly agree with your decision to use California's administrative data over the estimating methodology used by the Urban Institute, we are concerned that the report does not provide a clear basis for how you arrived at this conclusion. We would suggest that it be based upon the concern that the proxy population utilized by the Urban Institute provides a less reliable methodology than the actual administration data California is using to bill the Federal Government for reimbursement. Consistent with the comments we have provided during earlier phone conversations on the demographic problems using the ELA population by the Urban Institute, Dr. Throckmorton has written up these comments and they are attached for your consideration (Attachment B).

Given your short timeframe, I relayed these comments yesterday by phone to Andrew Sherrill with the understanding that these written comments could follow today. Please contact me at (916) 445-8582 if you have any questions about the information we have provided.

Sincerely,



THERESA A. PARKER
Chief Deputy Director

Attachments

cc: Jane L. Ross, Director, Income Security Issues

Comments From Urban Institute Researchers

 **THE URBAN INSTITUTE** 2100 M STREET, NW • WASHINGTON, DC 20037

Jeffrey S. Passel
Director, Program for Research
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October 31, 1994

Jane L. Ross
Director, Income and Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Ross:

We appreciate the opportunity to comment on the draft of your proposed report on estimates of the financial burden of illegal aliens on California. As your staff discovered, this topic is an extremely difficult one, given the lack of data and the disagreement on methods and assumptions. Our overall assessment is that the report is well done, does a good job of assessing the contending estimates, and conveys the strengths and weaknesses of the available estimates.

We have returned the draft report with marginal notes, but there are several items which warrant additional comment:

See p. 4.

p.8, end of 1st paragraph — The last sentence states that the federal government receives a large share of the taxes paid by aliens. While this is true, it is also the same for natives; i.e., the federal government receives the largest share of taxes paid by natives, legal aliens, and illegal aliens alike.

See p. 5.

p.10, 1st sentence — Our analysis of the administrative data from California for taxes and Medicaid suggest considerable problems with the reliability of California's databases, particularly with regard to identification and definition of illegal aliens in the prisoners lists and Medicaid users.

See p. 8.

p.13, footnote 10 — This should note that the reason the *Fiscal Impact* study did not include the component (Percentage of school days actually attended) is that it was unnecessary given our study's definition of average cost per pupil. A cross-reference to the text on page 15 would also suffice.

See p. 13.

p.20, footnote 17 — This footnote gives the impression that the *Fiscal Impacts* study used data on legalized aliens who were not eligible for Medicaid in our benchmarks. For the period we studied, most of the legalized aliens were still eligible only for limited-scope Medicaid. Furthermore, our benchmarks were based only on the population eligible for the limited-scope coverage.

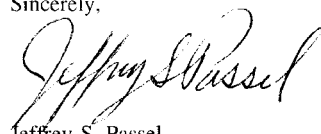
Appendix IV
Comments From Urban Institute
Researchers

Ross, Jane L.

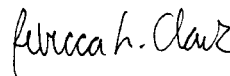
October 31, 1994

In presenting and discussing the cost estimates, the GAO report does not differentiate between marginal costs and average costs. Most users of estimates such as those presented in the GAO report and the *Fiscal Impacts* study interpret them as the amount of money that would be saved if undocumented aliens no longer used the services, i.e., as *marginal costs*. However, in the case of the education and incarceration, the estimates are based on the total cost divided by the total number of users, i.e., *mean costs*. In other words, if 6 percent of the students are estimated to be illegal aliens, then 6 percent of the costs are attributed to them. Mean costs may be greater than marginal costs because mean costs include both variable costs, which are affected by the number of individuals using the service, and fixed costs — such as certain administrative costs — which are not. This distinction is an important one that should be presented explicitly.

Sincerely,



Jeffrey S. Passel



Rebecca L. Clark

See p. 7.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: Linda F. Baker, Senior Evaluator; Alicia Puente Cackley, Senior Economist; Steven R. Machlin, Senior Social Science Analyst; and Stefanie G. Weldon, Senior Attorney.

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Benefits for Illegal Aliens: Some Program Costs Increasing, But Total Costs Unknown (GAO/T-HRD-93-33, Sept. 29, 1993).

Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25, Aug. 5, 1993).

Trauma Care Reimbursement: Poor Understanding of Losses and Coverage for Undocumented Aliens (GAO/PEMD-93-1, Oct. 15, 1992).

Undocumented Aliens: Estimating the Cost of Their Uncompensated Hospital Care (GAO/PEMD-87-24BR, Sept. 16, 1987).

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