

A More Equitable Distribution of the Positive Fiscal Benefits of Immigration

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This policy proposal is a proposal from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in policy proposal, whether or not the Project's staff or advisory council agrees with the specific proposals. This policy proposal is offered in that spirit.

BROOKINGS

Abstract

Immigration is good for the US economy and for the fiscal picture at the federal level, but some local areas experience adverse fiscal impacts when new immigrants arrive. Edelberg and Watson propose a transparent system for redistributing resources from the federal government to these localities. Local areas would receive \$2,500 annually for each adult immigrant who arrived to the US within the past five years without a college degree—those more likely to generate negative fiscal flows at the subnational level. The funds would take the form of unrestricted transfers to local educational agencies through the existing Impact Aid program and to Federally Qualified Health Centers. This support would help to offset educational, health, and other costs to local areas associated with immigrant inflows, and more equitably share the overall fiscal and economic benefits of immigration.

Contents

- Introduction.....1**
- The Challenge2**
 - Calculating the Fiscal Benefits and Burdens of Immigration2
 - A Measure to Identify Places in the United States That Bear More of the Fiscal Burden from Immigration 6
 - Historical Precedent for Federal Policy–Related Remuneration7
- The Proposal10**
 - The Immigration Impact Index10
 - Determining the Amount of Relief.....10
 - Education11
 - Health12
- Questions and Concerns13**
 - Would the proposal work if areas at or below the 0.5 percent threshold for impact index immigrants received transfers? 13
 - Why not target immigrants with children for education funding?13
 - Would educational funding supplement or supplant existing ELL funding through Title III?.....13
 - Does targeting education and health care make the money too restrictive?13
 - Why assume that the costs of immigration are linear in the number of immigrants?13
 - Why not use a threshold of no college rather than a bachelor’s degree?13
 - Would some places receive transfers even if they do not spend much on services for immigrants?.... 14
- Conclusion15**
- References16**
- Endnotes.....17**

Introduction

The economic benefits of immigration are well documented. Immigrants boost economic activity, promote innovation, and improve the productivity of native-born workers.¹ Those effects result in greater tax revenue at the state and local levels, and particularly at the federal level. Immigration also imposes some fiscal costs, especially at the state and local levels, and subnational fiscal impacts are one reason for political opposition to a more expansive immigration policy. This fiscal burden is particularly acute in places with a higher proportion of recently arrived immigrants that have lower levels of education. In this paper we propose one way to redirect some of the federal gains from recent immigration toward the subnational areas that incur its fiscal costs.

The federal government receives net fiscal benefits from immigration; federal policies redistribute some of these benefits to state and local governments in ways that offset costs of immigration. For example, federal programs partially subsidize classes for English language learners (ELLs) in schools and the provision of health-care benefits to immigrants without health insurance. Nevertheless, some state and local governments still face higher costs from increases in immigration that are not fully covered by increased state and local tax revenues.

The federal government has recognized the need to compensate subnational governments for the fiscal effects of an array of federal policies; for example, the federal government currently provides significant relief to school districts from the reduction in tax revenue that results from concentrations of tax-exempt federal property such as military bases. There is also a precedent of large-scale federal transfers related to immigration from the 1986 Immigration Reform

and Control Act that gave legal permanent status to 3 million immigrants. With the availability of large, annually collected data sets on demographic characteristics of local areas, new federal policies to reallocate the fiscal benefits of immigration can be more easily implemented than in the past. By transferring funds to communities that bear short-term fiscal costs, our aim is a more equitable allocation of the fiscal gains from immigration and visibility for the benefits to increasing immigration.

We propose sharing the fiscal gains from immigration through larger and more-targeted transfers of federal funds to the communities that bear fiscal costs. We focus on the two expenditure areas where there are particular spending burdens to state and local governments, and in which investments generate substantial long-term benefits to the United States as a whole: health and education.² This proposal is focused on the costs and benefits of *recent* immigration, defined as individuals who arrived to the United States within the past five years, and recent immigrants *who have less than a bachelor's degree*. Because the net fiscal contribution of college-educated immigrants is positive to subnational governments, we focus on transfers to areas absorbing recent immigrants *who have less than a bachelor's degree*.

Our proposed policy incorporates four key principles. First, transfers should go to communities that face higher fiscal costs as the result of immigration policy. Second, the size of the transfers should be related to the aggregate effects on revenues and spending from immigration flows. Third, transfers should be visible and transparent. And fourth, transfers should piggyback on existing flows between the federal government and subnational governments to minimize bureaucratic costs.

The Challenge

In this section, we describe previous research that reveals the fiscal benefits and costs of immigration, and how those benefits and costs differentially affect the federal government, and state and local governments. In examining the source of the net fiscal burden to state and local governments, we focus on education and health-care expenditures in connection with newly arrived immigrants who have less than a bachelor's degree. We show the geographic dispersion of those immigrants using publicly available data. Finally, we describe previous and current federal programs that help to offset the fiscal burden on state and local governments that results from federal policies such as immigration.

Calculating the Fiscal Benefits and Burdens of Immigration

Increases in immigration raise both tax revenues and fiscal costs. The mix of revenue types and benefits provided across the federal, state, and local levels mean that tax revenues increase the most at the federal level and costs increase the most at the subnational level. The result is a net fiscal benefit to expanded immigration at the federal level and a net fiscal cost at the state and local levels for the average immigrant.

Revenue Generated by Immigrants

Overall, immigrants and increasing immigration are good for the American economy. Immigration is associated with a larger labor force as well as increased productivity and innovation. Immigrants have a direct positive *fiscal* impact to the extent that they pay taxes, fines, or fees, and an indirect one if the increase in economic activity they create generates government revenue.

On the direct revenue side, immigrants contribute to all levels of government through income, payroll, sales, and property taxes. The National Academy of Sciences (NAS) estimated that, in 2013, revenues exceeded \$10,000 per immigrant (\$12,050 in 2022 dollars). In total, in 2013 the direct impact on revenues was \$395 billion at the federal level and \$209 billion at the state and local levels (\$476 billion and \$252 billion in 2022 dollars, respectively). The increase in revenue partly stems from taxes paid by undocumented immigrants; for example, in 2014 their annual contribution to state and local tax revenues was estimated to be about \$12 billion (\$14.2 billion in 2022 dollars; Institute on Taxation and Economic Policy 2017).

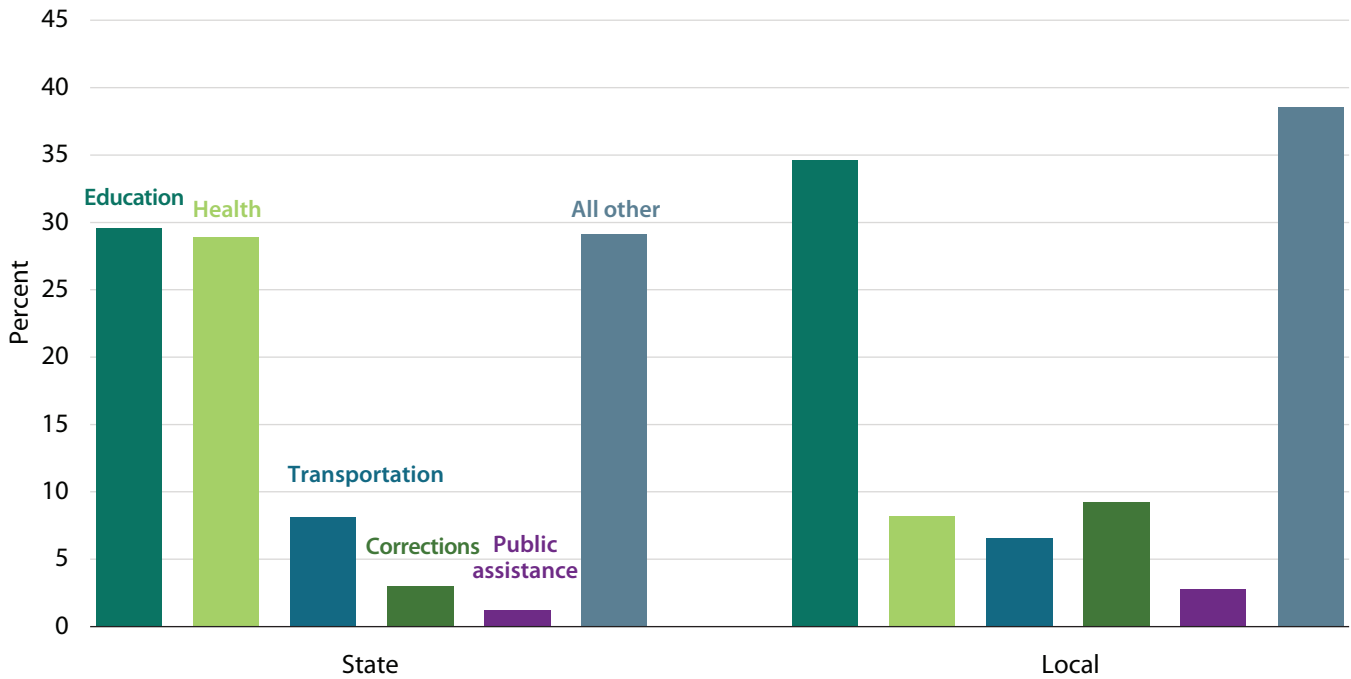
Other research has suggested that there are substantial positive *indirect* fiscal benefits of immigration that incorporate broader fiscal impacts arising through immigration's effect on the labor market, capital accumulation, and the economy as a whole (Clemens 2022; Colas and Sachs 2020). Nonetheless, here too the effects vary by education level. Comparing counties with differing immigrant inflows, Mayda et al. (2022) find that the overall per capita fiscal health of counties improves when arriving immigrants are more highly educated, and find the opposite to be true when arriving immigrants are less educated.

Fiscal Cost of Immigrants

Because immigrants receive some of the same benefits from the government that US natives do, they generate fiscal costs to the extent that immigration increases government expenditures directly or indirectly. However, low-income immigrants use fewer safety-net programs than native-born individuals at similar income levels, receive less in public health-care benefits than the average native-born person, and contribute a net surplus to the Medicare program (O'Shea and Ramón 2019; Watson 2017).

The federal government provides a relatively small share of the benefits that immigrants receive. Federal expenditures disproportionately go to older individuals through the Medicare and Social Security programs, and, to a lesser extent, to programs for which immigrants are often ineligible. For example, immigrants who are in the United States legally are ineligible for most federal safety-net and social insurance programs within the first five years after arrival, and undocumented immigrants typically do not have access to these programs regardless of time in the United States. Major federal programs with such restrictions include Medicaid and the Children's Health Insurance Program (CHIP), Medicare, Social Security, Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), and Supplemental Security Income (SSI). Undocumented immigrants cannot claim the Earned Income Tax Credit (EITC). Federal programs that are available to immigrants regardless of their time in the United States or legal status include the federally funded school meal programs, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Child Tax Credit (CTC; available if a child has a valid Social Security number), and the Head Start and Early Head Start programs.

FIGURE 1
Distribution of State and Local Spending, 2019



Source: US Census Bureau 2019 (Annual Surveys of State and Local Government Finances); National Association of State Budget Officers (NASBO) 2019 (State Expenditure Report); authors' calculations.

Note: The distribution of state spending is from NASBO, and the distribution of local spending is from the Census. Corrections also includes public safety.



The public benefits that immigrants do receive are disproportionately paid for by state and local governments. The top two state and local expenditure categories are education and health care: children of immigrants have access to public schools regardless of their own or their parents' immigration statuses. Immigrants also have access to some health-care benefits that are partially financed by states. For example, low-income immigrants are eligible for *emergency* Medicaid, which covers acute care and childbirth. In addition, some state and local governments choose to fund and provide benefits to recent immigrants and undocumented immigrants to make up for lack of access to federal programs. Some state and local governments choose to provide child health-care coverage regardless of immigration status through the CHIP program, for instance. Subnational governments also provide support for public health infrastructure such as immunizations.

Distribution of State and Local Spending

Figure 1 displays the breakdown of state and local government spending across six major areas (education, health, transportation, corrections, public assistance, and all other) in 2019, the most recent year in which spending patterns were typical. Prior to the pandemic, in 2019, 30 percent of the state government expenditures went to education and

29 percent went to health. For local governments, 35 percent of expenditures went to education and 8 percent went to health. Education is primarily funded by state and local governments. In 2019 federal spending accounted for just 8 percent of all elementary and secondary education expenditures (Chen 2021). Federal support of health-care spending is more extensive, through such major programs as Medicare and Medicaid, as well as the Children's Health Insurance Program (CHIP) and grants to community health centers, but state and local expenditure is significant.

Education

Public education for primary and secondary students is a major source of expenditures for state and local governments. As reported by the National Center for Education Statistics (NCES), public current expenditures on K-12 education averaged roughly \$14,000 per student in the United States for the 2018-19 school year in 2020-21 dollars (NCES 2022), but costs varied greatly across states and localities. Variation in immigration could be a factor behind the variation in spending: 10 of the 15 jurisdictions with the highest share of immigrants (Washington, DC, and 14 states) ranked in the top 15 of the highest education expenditures per student. However, this variation may be due in part to the fact that immigrants tend to settle in higher-cost areas (NCES 2020; Rueben and Gault 2017).

The fiscal burden on states and local governments of educating immigrants is partly subsidized by the federal government. Title III of the Every Student Succeeds Act (ESSA) of 2015 targets funds to support ELLs, a population that largely overlaps with recently arrived immigrants and their children. Title III is funded at less than \$1 billion per year. This figure has not increased much with inflation or with the expanding numbers of ELL students, and by 2016 amounted to only \$150 per ELL student according to the Century Foundation (Williams 2020). Title I also provides some federal support for schools with high numbers of low-income students. Most Title I and Title III funds go to state educational agencies, which in turn distribute them to local school districts and schools. The modest level of federal support for the incremental costs of educating additional children means that most of the extra costs owing to immigration are borne by state and local governments.

The costs of educating immigrant children do not vary much by family education and income, but the tax revenues collected from immigrants do vary considerably because of differences in immigrants' income as well as because of state and local tax policies. That means that lower-educated families are a net fiscal burden to states and localities in the short run, as we detail below.

Health

Overall, immigrants use fewer public health-care benefits than US natives. In general, immigrants must have a qualified immigration status to be eligible for Medicaid or CHIP, and most lawful permanent residents (or green card) holders cannot enroll before they have had that status for five years (Kaiser Family Foundation 2022). One exception to these five-year waiting periods is that immigrants lawfully present can enroll in federally subsidized health insurance marketplace plans. Nevertheless, immigrants in general and undocumented immigrants in particular are often uninsured. In 2020 about a quarter of lawfully present non-elderly immigrants, and about 40 percent of undocumented immigrants, were uninsured, compared to less than 10 percent of American citizens.

Federal policies partially subsidize the costs of health care for uninsured immigrants through both the Emergency Medicaid program (Ku and Jewers 2013) and Medicaid's Disproportionate Share Hospital (DSH) program. The Emergency Medicaid program covers acute care and childbirth for individuals who would be eligible for Medicaid except for their immigration status, while the DSH program provides support to hospitals who have a large number of uninsured patients. States also help fill in the gaps left by incomplete federal support; for example, states are responsible for up to half of the cost of Medicaid depending on the state and program. In addition, some states offer state-funded prenatal care or health insurance for children regardless of immigration status, and California plans to offer coverage to adult immigrants of all ages by January 1, 2024.

One important provider of health care for uninsured and Medicaid-ineligible immigrants is community health centers, including those financed through the Federally Qualified Health Center (FQHC) system. FQHCs include nonprofit organizations receiving grants through Section 330 of the Public Health Services Act (1944) to provide primary and preventive health care to medically underserved populations, including migrant farmworkers as one of several target populations. More than 90 percent of FQHC patients have low incomes (Rosenbaum et al. 2019). The funding to health centers comes from Medicaid, Section 330 grants, and other sources, but these sources typically do not increase when new, less-educated immigrants arrive in a local area, and tax revenues may not fully offset the impact on the health system as a whole.

Other Costs

Beyond education and health care, some states provide state-funded nutrition assistance for certain immigrant populations who are ineligible for SNAP through direct cash assistance. Local governments also provide a range of services that may benefit immigrant populations. Although our proposal does not aim to address every fiscal burden incurred, our proposed policy to send resources to local areas that are facing higher costs would ease budget pressure overall.

Net Fiscal Impact of Immigration

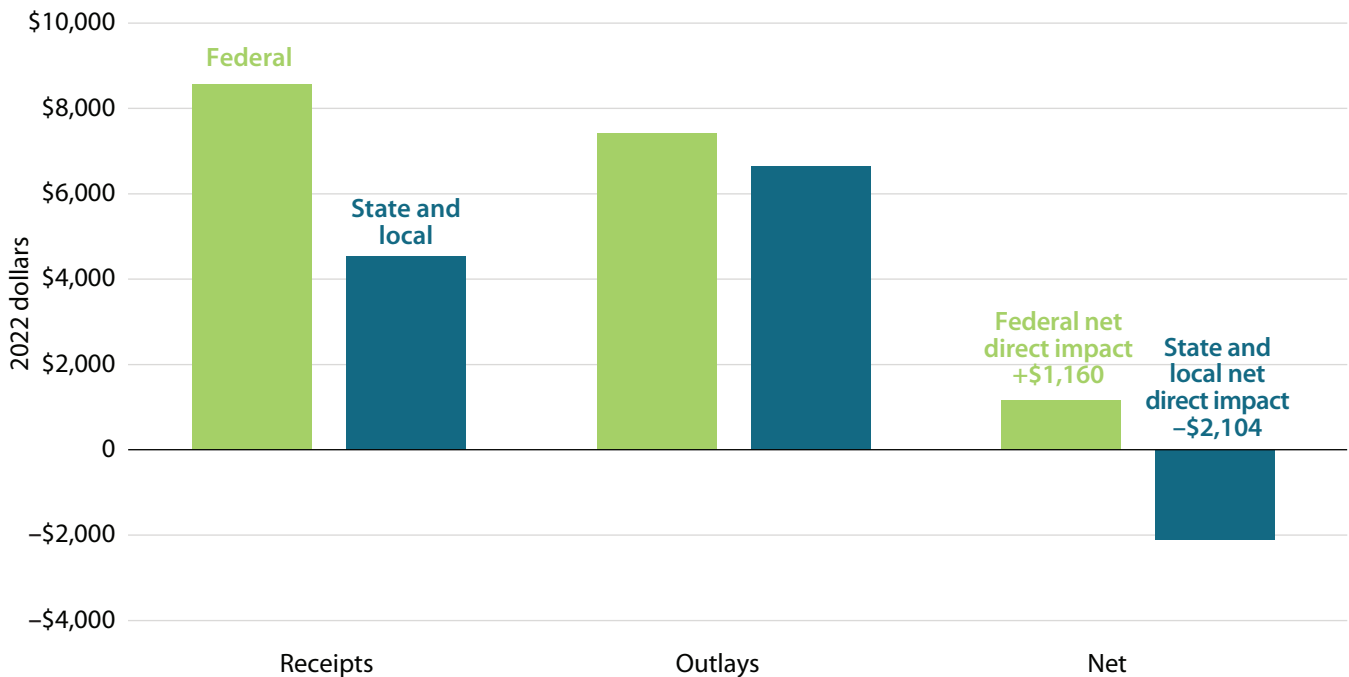
Having briefly shown that immigrants both generate revenue and incur costs, we move to addressing the *net* fiscal impact. Measuring fiscal impacts is not easy, even if one considers only the *direct* revenues paid by and expenditures made on behalf of immigrants. A 2017 NAS report attempted to measure those impacts comprehensively; that report used several approaches and is the basis for our proposal.

The NAS report estimates the direct change in annual revenues and spending that arises from the presence of one additional immigrant. The estimate reports the effect of an average immigrant over the period from 2011 to 2013. The calculation rightly excludes expenditures that the federal government makes that are unaffected by moderate changes in the level of immigration, such as defense spending. Figure 2 shows that, at the federal level, an immigrant is estimated to contribute, on average, \$1,160 (in 2022 dollars) more in tax revenues than they receive in federal benefits. In other words, the federal balance sheet looks healthier as the result of expanded immigration.

The NAS report also estimates the direct fiscal effect of one additional immigrant on state and local governments. In contrast to the positive net fiscal effect at the federal level, the report finds that the direct state and local impacts are negative. At the state and local levels an additional immigrant is estimated to pay, on average, \$2,104 less in taxes and fees per year than that person receives in benefits. Importantly for the fiscal picture, measured benefits include government spending for dependents (including native-born children of immigrants), which is largely made up of

FIGURE 2

Direct Fiscal Impacts of Immigrants and Their Dependents in 2013, Reported in 2022 Dollars



Source: National Academies of Sciences, Engineering, and Medicine (NASEM) 2017; Bureau of Economic Analysis (BEA) n.d.; authors' calculations.

Note: NASEM table 8-2, scenario 5. Adjusted to 2022 (first through third quarter average) dollars using personal consumption expenditures price index.



educational spending paid for at the state and local levels.³ On net, across all levels of government, the NAS report estimated a direct fiscal loss of \$783 per immigrant in 2013, or \$944 in 2022 dollars.

Is this calculation of a net fiscal loss at odds with our premise that increasing immigration benefits the United States? No. The economic impacts of immigration are broader than these direct fiscal impacts. But even considering just the narrow fiscal impacts, the evidence is clear that, while the fiscal impacts are negative at first for a typical immigrant, the long-run impacts are positive (Lee and Miller 2000). Akee and Jones (2019) link longitudinal earnings records and show that, among immigrants who stay in the United States at least nine years and who work in the formal labor market, earnings start out roughly 40 percent lower than native-born workers with similar characteristics and have largely converged by the sixth year the immigrant is in the United States. Individuals with less-favorable earnings profiles are likely to contribute lower receipts per capita in the first years after arrival but are also more likely to leave the United States.

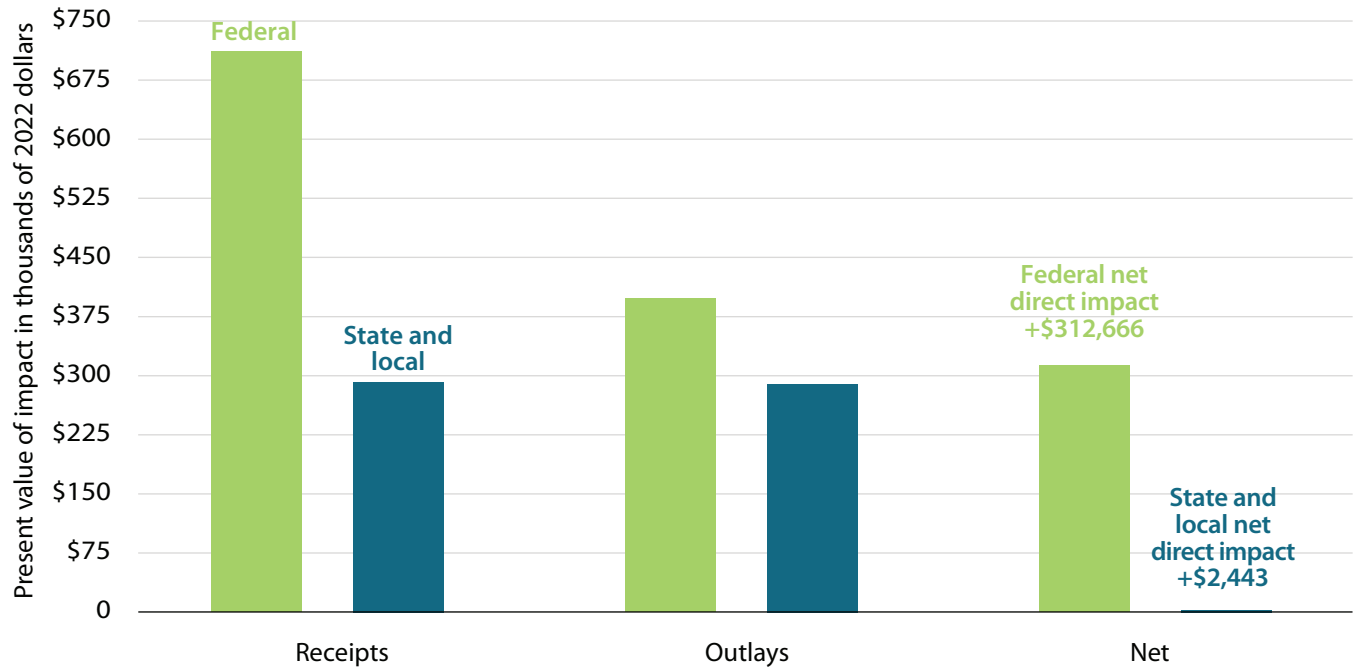
Although the NAS report did not analyze the changes over time in fiscal impacts of immigrants as they stay in the United States, it does estimate the aggregate fiscal impact over a longer time horizon. It evaluates fiscal effects by looking at the present value of the projected 75-year fiscal impact of a

new immigrant (i.e., the first generation), including the fiscal benefits of their descendants (i.e., the second and subsequent generations). Figure 3 shows a net fiscal benefit of \$312,666 in present value (2022 dollars), including immigrants and their offspring, based on the Congressional Budget Office's (CBO) 2014 long-term budget projections. Under different budget projections where per capita taxes and spending simply grow at 1 percent a year, the effect is a net fiscal benefit of \$94,044 (in 2022 dollars). The 75-year fiscal impact estimate reflects the fact that more-recent immigrants have higher educational levels on average than immigrants in the country had in 2012, and that immigrants typically arrive with their peak earnings years ahead of them. Although this approach is subject to more uncertainty, it again shows that the federal government enjoys most of the fiscal gains from immigration: state and local governments are estimated to receive only about \$2,443 (in 2022 dollars) of the total that accrues in present value of fiscal flows.

The long-run fiscal effects on state and local governments of an increase in immigration differ significantly by an immigrant's level of education, as shown in Figure 4. The present value of the projected 75-year fiscal impact for state and local budgets of a new immigrant without a high school diploma is a *cost* of \$90,380 (or \$79,388 with different assumptions about projected spending and taxes). In contrast, a new immigrant with more than a bachelor's degree generates

FIGURE 3

Direct Fiscal Impacts of New Immigrants Over a 75-Year Horizon, First-Generation and Descendants Combined



Source: National Academies of Sciences, Engineering, and Medicine (NASEM) 2017; Bureau of Economic Analysis (BEA) n.d.; authors' calculations.

Note: NASEM table 8-15. Adjusted to 2022 (first through third quarter average) dollars using personal consumption expenditures price index.



an estimated fiscal *gain* of \$133,127 (or \$117,250 under different assumptions). It is therefore the case that some states and localities will enjoy direct fiscal benefits of immigration, whereas others—especially those receiving new less-educated migrants—will face significant budget pressure.

Figures 3 and 4 highlight two calculations: the direct net fiscal impact of one additional immigrant and that immigrant's projected 75-year impact. Why do both calculations matter? To explain, take education as an example. Educational spending can be viewed as an investment. Education contributes to individuals' higher educational attainment, better health, and better labor market outcomes in the future, all of which contribute to the long-run fiscal benefits of immigration. However, these expenditures pose an immediate challenge for state and local government balance sheets. Moreover, the costs of that educational spending are largely borne by state and local governments, whereas the long-run fiscal returns largely accrue to the federal government.

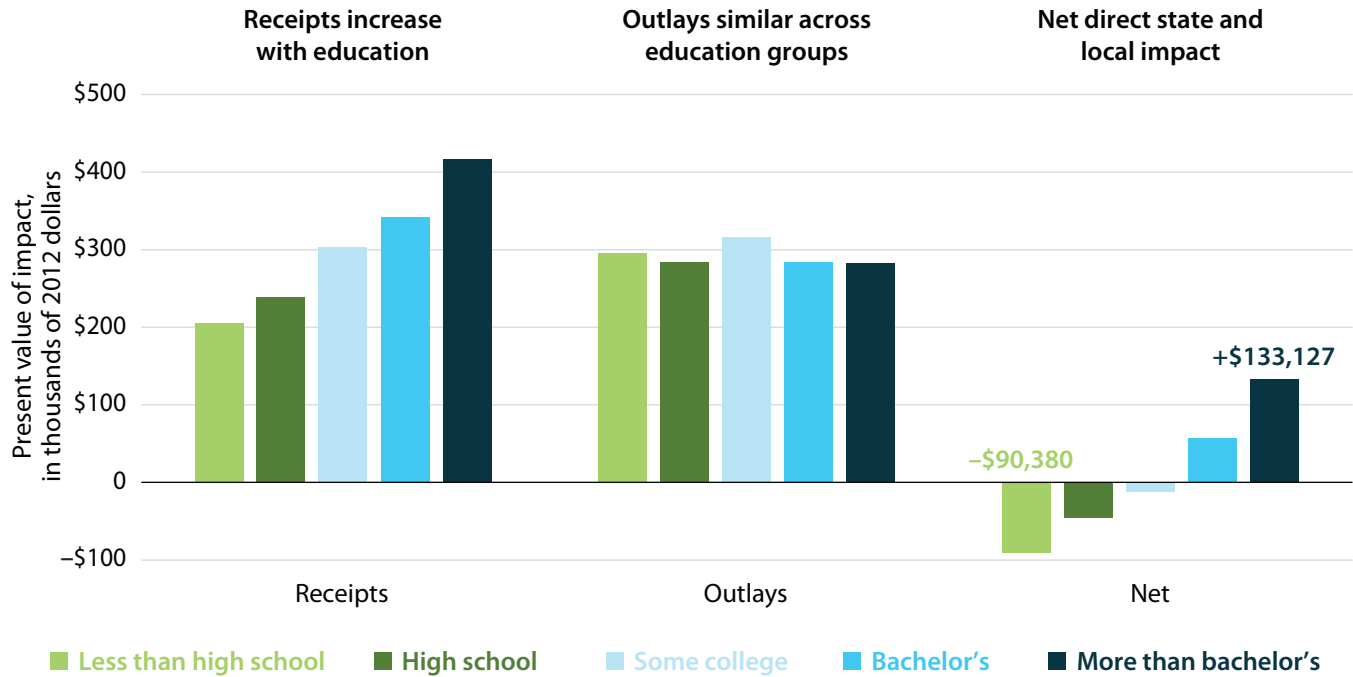
A Measure to Identify Places in the United States That Bear More of the Fiscal Burden from Immigration

Evidence we have presented establishes that state and local governments bear more of the fiscal burden of immigration than the federal government bears, and that places that have a higher proportion of newly arrived, less-educated immigrants bear even more of the fiscal burden. In order to improve the distribution of the accrued benefits of immigration, one must identify the places that are bearing the costs.

There is wide variation in the number of immigrants, the number of recent immigrants, and the educational attainment of immigrants across the United States. Figure 5 is a map that shows the fraction of the population that is foreign born by Public Use Microdata Areas (PUMAs). PUMAs are Census-defined units with at least 100,000 people that do not cross state lines. Information is from the 2015–19 American Community Survey (ACS; US Census Bureau 2015–19), which captures the population living in each part of the United States regardless of immigration status. It would not, however, capture costs associated with immigrants passing through on their way to another destination.

FIGURE 4

Direct State and Local Fiscal Impacts of New Immigrants Over a 75-Year Horizon, by Education, First-Generation and Descendants Combined



Source: National Academies of Sciences, Engineering, and Medicine (NASEM) 2017; Bureau of Economic Analysis (BEA) n.d.; authors' calculations.

Note: NASEM table 8-16, using CBO Long-term Budget Outlook. Adjusted to 2022 (first through third quarter average) dollars using personal consumption expenditures price index.



The foreign-born population in our sample is defined as naturalized citizens and noncitizens who do not live in institutional or group quarters. (Individuals born in most US territories, or born outside the United States to at least one parent who is a US citizen and who has lived in the United States for a specified period, are US citizens at birth and are not considered to be immigrants.)

The shading in Figure 5 is broken into quintiles. The darkest teal regions show the top 20 percent of PUMAs by share of foreign born. The top 20 PUMAs in terms of foreign-born share were in California, Florida, New York, and Texas. The median PUMA had a roughly 9 percent share of foreign-born individuals.

Areas with more newly arrived, less-educated immigrants are likely to face the most fiscal pressure, stemming largely from lower tax revenue generated per capita. In our proposal, we therefore use this information on the geographic dispersion of newly arrived less-educated immigrants as the key determinant of how funds are allocated. In particular, we will focus on the local fiscal impact of immigration based on the share of adult population (ages 18 or older) in a community that meets all of the following criteria:

1. Adults are foreign born and arrived in the United States within the past five years.

2. Adults are not dependent; individuals are identified as dependent if they are ages 18–22 and are in school.
3. Adults do not have at least a bachelor's degree.

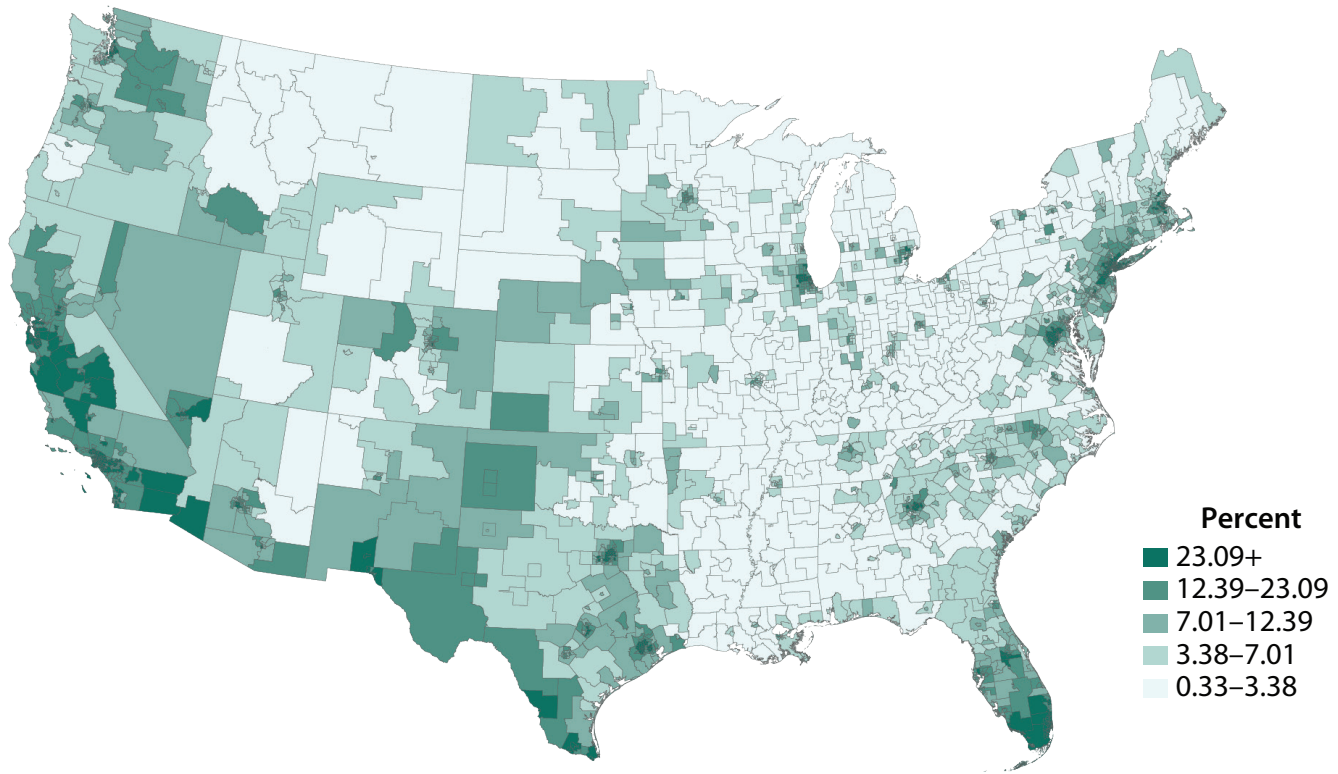
In this paper we call those identified by this measure “impact index immigrants.” Figure 6 shows the fraction of the adult population that comprises impact index immigrants, meaning the population identified in the bulleted list above as driving the disproportionate state and local fiscal costs of immigration. The top 20 PUMAs were in Florida, Maryland, New Jersey, New York, and Texas, and the median PUMA had roughly a 0.6 percent share.

An accompanying data interactive shows the Immigration Impact Index by PUMA and state.

Historical Precedent for Federal Policy-Related Remuneration

The idea of compensating states and localities for federally determined policy impacts is not new. Indeed, in a 2007 Migration Policy Institute volume, economist and demographer Deborah Garvey (2007) argues for impact aid related to immigration. And previously authorized and long-standing

FIGURE 5
Share of Population That Is Foreign Born



Source: US Census Bureau 2015–19 (American Community Survey); authors' calculations.

Note: Geographic lines are at the PUMA level. Legend colors are grouped into quintiles based on the contiguous US.



federal programs significantly offset the fiscal burden on state and local governments that result from an array of federal policies.

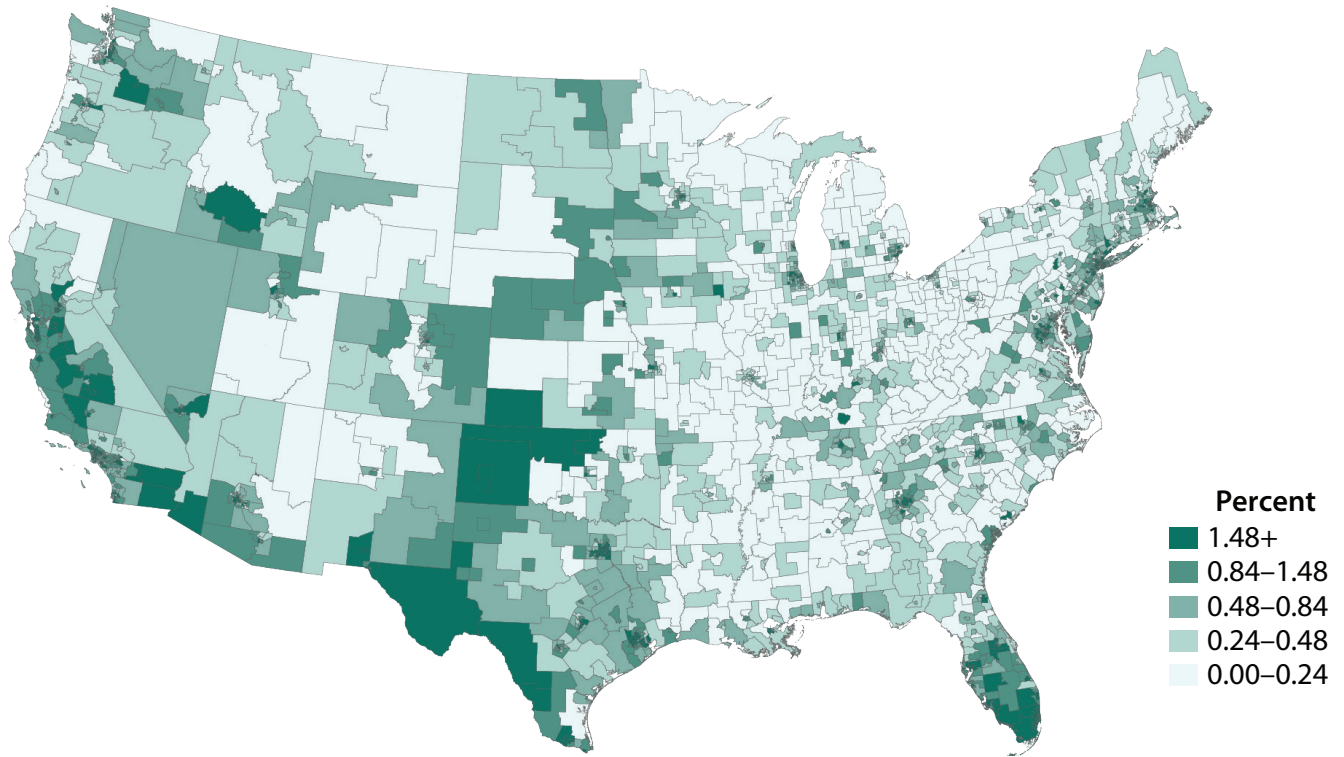
There is historical precedent to redistribute federal resources on the basis of immigration impacts in particular. As part of the 1986 Immigration Reform and Control Act, the federal government implemented a broad program to redistribute the fiscal benefits of extending legal status to previously unauthorized immigrants. In 1986, the State Legalization Impact Assistance Grants (SLIAG) fund offered \$4 billion (\$9 billion in 2022 dollars) spread over four years to help states pay for health, education, and social services for the approximately 3 million immigrants being granted legal status. The fund also paid for programs to help immigrants learn English and civics, and integrate into American communities. In addition, the government compensated states for large internal migration shocks; for example, in

the case of Hurricane Katrina it temporarily adjusted the Medicaid financing formula applying to Texas.

There is also precedent for the federal government to compensate specific places where its tax base is affected by federal policy in other ways. Since 1950 Congress has provided largely unconstrained financial assistance to local school districts that have lost property tax revenue due to the presence of a tax-exempt federal property, or that have experienced increased expenditures due to the enrollment of federally connected children. These districts might have, for example, a military base within its catchment area. This program, Impact Aid, is authorized through Title VII of the Every Student Succeeds Act (ESSA) and costs more than \$1 billion annually. Most Impact Aid funds are considered to be general aid to the recipient school districts; these districts may use the funds in whatever manner they choose in accordance with their local and state requirements.

FIGURE 6

Share of Adult Population Included in Immigration Impact Index



Source: US Census Bureau 2015-19 (American Community Survey); authors' calculations.

Note: Adults are aged 18 and over noninstitutionalized population. Impact Index Immigrants are noninstitutionalized adults with less than a bachelor's degree, who immigrated 5 or less years before they were surveyed. The index excludes college-age (18-22) immigrants who are in school and do not have a bachelor's degree or more. Geographic lines are at the PUMA level. Legend colors are grouped into quintiles based on the contiguous US.

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The Proposal

We have established that immigration is good for federal fiscal health as well as for the US economy more broadly but that it imposes fiscal costs on some states and localities. To ensure that the local communities adversely affected by federal immigration policy receive more of immigration's benefits, we propose to redistribute some of the fiscal gains of immigration to defray the immediate net fiscal costs that arise from welcoming newly arrived, less-educated immigrants. This proposal

1. outlines a measure and method for determining the communities that qualify for funds, the Immigration Impact Index;
2. justifies an evidence-based dollar value per immigrant (\$2,500) in Immigration Impact Index communities that would be paid by the federal government; and
3. identifies the education- and health-based federal funding channels through which the federal government could remunerate these resources transparently and efficiently to state and local governments, namely Impact Aid in schools and FQHCs.

The Immigration Impact Index

The Immigration Impact Index is the share of noninstitutionalized adults in a local area that arrived in the past five years, are not young adults (ages 18–22) who are currently in school, and do not have a college degree. The index necessarily varies across communities, and by design would yield differential transfers across the country. Nationwide, the number of impact index immigrants are a bit less than 1 percent of the adult noninstitutionalized population, or about 2.4 million people. In some communities—in parts of Florida, New Jersey, New York, and Texas, for example—they represent 6 percent or more of the local adult noninstitutionalized population.

To simplify administrative burdens, funds would be distributed only to places where more than 0.5 percent of the local area adult noninstitutionalized population is an impact index immigrant. Figure 7 shows the local areas (PUMAs) where more than 0.5 percent of the adult population meets those criteria.⁴ Approximately 10 percent of impact index immigrants are located in PUMAs with populations at or below the 0.5 percent threshold. Excluding those areas from the programs, however—which would otherwise

be eligible for only a modest amount of federal support tied to the number of impact index immigrants—significantly streamlines the program and concentrates limited resources toward the most-affected areas.

The US Census Bureau has the data, expertise, and authority to produce the Immigration Impact Index. The Small Area Income and Poverty Estimates (SAIPE) program is tasked with providing annual estimates of income and poverty at the county and school district levels; those estimates are used in the administration of federal programs. For example, SAIPE estimates of the share of school-age children and the share of school-age children in poverty by school district are used as an input into the Title I formulas that distribute funds to low-income schools. It would be straightforward to add the Immigration Impact Index to the Census Bureau's docket.

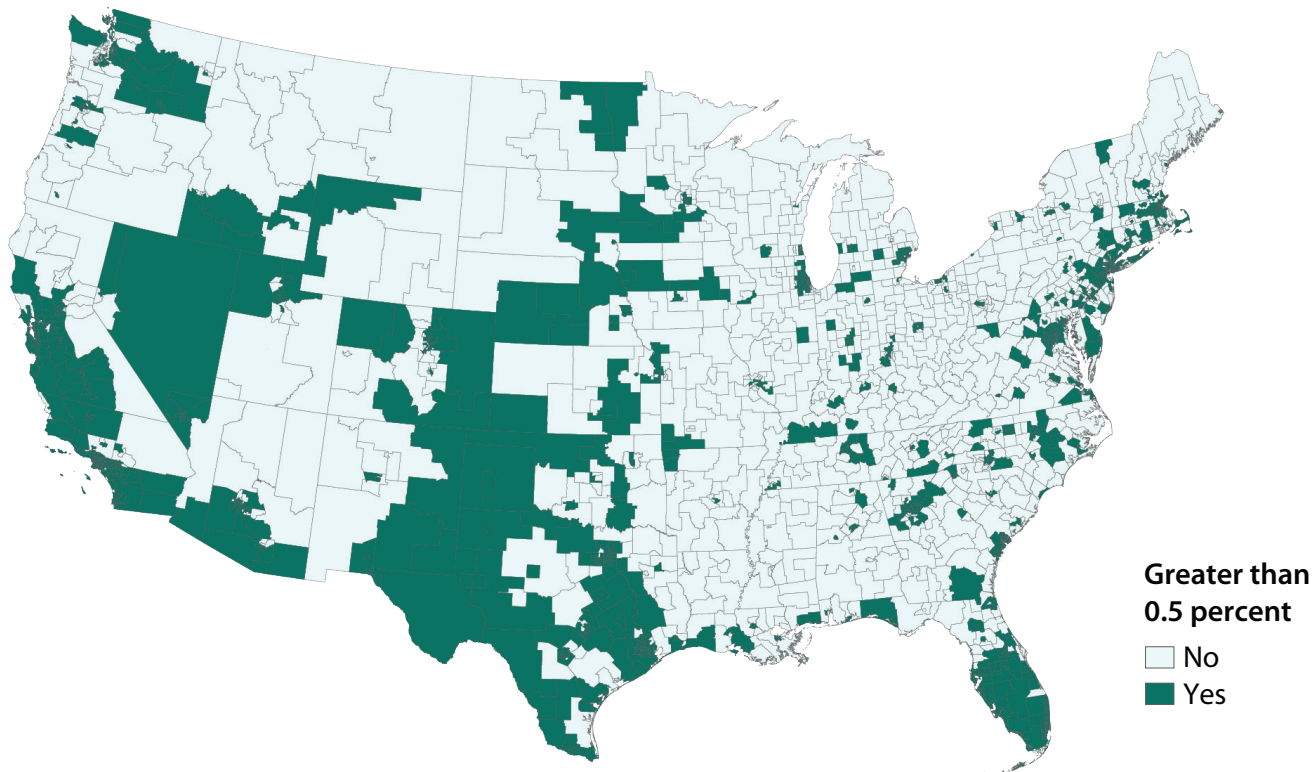
Determining the Amount of Relief

We propose that the federal government transfer \$2,500 per impact index immigrant per year (through the Impact Aid and FQHC channels) to communities that meet the 0.5 percent Immigration Impact Index cut-off. Because of current data reporting methods, communities are defined at the local educational agency (LEA) district level for the education-funding channel and as counties for the health care-funding channel. We base the sum of \$2,500 on the NAS estimate that net point-in-time annual fiscal cost of an average immigrant in 2012 was \$2,104 for state and local governments (in 2022 dollars).

Our proposed total of \$2,500 reflects several offsetting factors relative to that estimate that together suggest that the total should be somewhat higher. Because research shows that fiscal costs are highest for newly arrived immigrants and fall over time spent in the United States, we reason that fiscal costs for those who have arrived in the past five years are higher than \$2,104. In addition, the point-in-time fiscal costs of less educated immigrants is likely higher than the average cost of \$2,104. Although the NAS report does not provide separate point-in-time estimates by educational attainment, it does produce 75-year horizon estimates by education. In the 75-year estimate, the NAS report shows that less-educated immigrants pay less in taxes to state and local governments than immigrants who are more highly educated. Consistent

FIGURE 7

PUMAs with Impact Index Immigrants Greater Than 0.5 Percent of Adult Population



Source: US Census Bureau 2015–19 (American Community Survey); authors' calculations.

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with that, less-educated immigrants are associated with net fiscal costs to state and local governments while more-educated immigrants are associated with net fiscal gains.

On the other hand, one significant factor suggests the NAS estimate of \$2,104 overstates the fiscal costs of immigration to state and local governments: the beneficial aggregate economic impact of new immigration and the resulting indirect fiscal benefits are not included in that calculation. A large body of research shows that immigrants increase productivity and the aggregate income earned by the rest of the population. These spillovers result in positive indirect fiscal benefits that partially offset the negative direct impacts of new, less-educated arrivals.

With admittedly significant uncertainty, we therefore propose a total annual transfer of \$2,500 per impact index immigrant. We apportion that amount between a transfer targeted to the education system (70 percent of the total, or \$1,750) and a transfer targeted to the health-care system (30 percent of the total, or \$750). In future years, those figures would be adjusted for inflation.

The aggregate size of the overall federal transfers would naturally depend on the level of impact index immigration. With a stock of 2.2 million impact index immigrants in areas receiving federal transfers in 2019 (2.4 million minus

a small number in areas with less than or equal to 0.5 percent), the annual expenditures would total \$5.5 billion. As immigration ebbs and flows, the amount of the transfers would mechanically adjust. For example, if the post-COVID increase in asylum seekers persists and offsets the COVID-era immigration slowdown, it would translate into more transfers for areas that welcome those immigrants.

Education

Because education of immigrants and the children of immigrants is a major expense at the state and local levels that the federal government only modestly subsidizes, we propose that 70 percent of funding be directed to school districts. We propose delivering these resources through the existing Impact Aid program in schools, which has four features that recommend it:

- The bureaucratic infrastructure for the Impact Aid program already exists.
- The Impact Aid program defines the concept of federally connected LEAs that can qualify.
- Federal dollars are distributed directly to LEAs (i.e., school districts).

- Most funds distributed through the existing Impact Aid program are general funds and can be used for any spending, including capital expenditures.

Currently, LEAs can apply to the Impact Aid program if they provide evidence that the activities of the federal government place a financial burden on the LEA. The clearest example is this: an LEA could qualify for Impact Aid because of the presence of federal facilities—such as federally subsidized low-rent housing or a military base—that attenuate the tax base. Similarly, places that meet the criteria for the Immigration Impact Index are federally connected because federal immigration policy is differentially affecting the local tax base and fiscal burdens. We propose that LEAs could apply for Immigration Impact Funds through the Impact Aid program, in essence including the Immigration Impact Index as an additional qualifying characteristic.

Because Impact Aid provides general funds to LEAs, districts would have the flexibility to spend these funds in the way that they deem most appropriate. The allocation across school districts is not directly tied to the number or characteristics of children in school, but instead reflects the community-level fiscal impacts of immigration using the index described above. The funds would amount to \$1,750 per impact index immigrant within district boundaries, with appropriate adjustments made for charter schools and school districts with overlapping geographies. Because SAIPE already produces LEA-level statistics as input into Title I, it would be straightforward to apply an LEA-level calculation of the Immigration Impact Index for Title VII.

This increase in resources would be substantial relative to the modest transfers of about \$150 per ELL student that local areas receive through Title III funding. Moreover, the increase in resources would be ongoing and somewhat predictable, allowing districts to finance the social infrastructure necessary to serve their students and families over the long term.

Health

We propose that the second part of funding flow to FQHCs through the Section 330 programs. Health centers would be able to apply for supplemental aid based on the number of

impact index immigrants in their counties, with appropriate adjustment for the fact that counties and health center service areas are not identical. The grant funding available would be equal to \$750 per impact index immigrant in the county, apportioned across health centers serving the county and applying for aid. The total funds available given current migration flows would be around \$1.65 billion annually (based on 2.2 million impact index immigrants in PUMAs above 0.5 percent), which would represent an increase of about 30 percent in health centers federal grant fund support (from \$5.7 billion in 2022 to \$7.4 billion in future years; NACHC 2022). With no offsetting decreases in financing from other sources, that increase in grants would raise the level of aggregate support to health centers (which includes other grants, support from Medicaid/Medicare, and other revenue), by about 4 percent—from around \$38.8 billion in 2021 to \$40.5 billion in future years (HSRA 2021; Rosenbaum et al. 2019).

Targeting support through FQHCs has several attractive features:

- FQHC providers already serve the recently arrived, low-income, and uninsured immigrant population.
- These health-care providers are relatively broad-based and nimble, allowing communities to tailor the kinds of health-care needs most appropriate to each area. Many providers also provide other forms of support to immigrant families.
- State governments currently fund a portion of the health centers' budgets, so giving health centers additional federal resources would take some pressure off state budgets.

Some states would surely pull back on the grants they offer to health centers, while other states would take the opportunity to direct funds to other sources of support for the low-income recent immigrant population. Regardless, increasing Section 330 funding proportional to the number of impact index immigrants would reduce the fiscal pressures of immigration at the state level. At the same time, the increase in transfers to health centers would be large enough to be salient so that community members will be aware that the federal government is stepping in.

Questions and Concerns

Would the proposal work if areas at or below the 0.5 percent threshold for impact index immigrants received transfers?

Yes. The threshold is included because we acknowledge that the program would have administrative costs. In addition, school districts and health centers that expect to receive only minimal funds would be less likely to apply. Nonetheless, the threshold should be set with administrative costs in mind and indeed might be reduced or eliminated over time if the program proves to be efficient.

Why not target immigrants with children for education funding?

Determining transfers to LEAs based on the number of public-school children of recent immigrants who have less than a bachelor's degree is a reasonable alternative to what we propose. However, focusing on the adults recognizes the broad fiscal costs incurred by communities that are affected by immigration, costs that we aim to offset through educational spending. In addition, we appreciate that schools serve broader purposes for communities beyond educating enrolled children. For example, schools often serve as community centers. Financial help for LEAs in areas with a great number of recent immigrants who have less than a bachelor's degree provides LEAs and local governments with more support in serving that community.

Would educational funding supplement or supplant existing ELL funding through Title III?

This program would be separate from support for ELL funding. The proposed program would operate through the existing Impact Aid program and funds would not need to be spent on services specific to the children of immigrants. The amount of ELL funding is modest enough that there might be efficiency gains without significant effects on ELL programs by eliminating the ELL funding and increasing funding based on impact index immigrants. To the extent that school systems have organized their budgets around target

ELL funding, however, any transition to incorporate the changes described here should be deliberate and thoughtful.

Does targeting education and health care make the money too restrictive?

There is benefit in sending resources to the two sectors that are most directly affected by immigration. For example, doing so makes the federal transfers more clearly tied to the state and local costs related to immigration. Nevertheless, by design, localities have significant flexibility regarding how to spend the money within health and education. In addition, recipients of funds may adjust other spending in response, creating even greater flexibility in the ultimate allocation of resources across needs.

Why assume that the costs of immigration are linear in the number of immigrants?

The costs that primarily motivate our approach are direct costs for health care and education, which to a first approximation are linear in the number of immigrants. It is possible that there are economies of scale or, conversely, particular challenges that arise with larger immigration flows, but we do not attempt to model those here.

Why not use a threshold of no college rather than a bachelor's degree?

As shown in Figure 4, immigrants with some college but no degree have slightly negative fiscal impacts at the state and local levels according to the NAS report, whereas the fiscal impact of those with a bachelor's degree is positive at the state and local levels. If federal transfers were determined by the number of recent immigrants limited to only those with a high school diploma or less, there would be 1.8 million impact index immigrants rather than 2.4 million. At the same time, transfers per impact index immigrant should then be larger than proposed here to account for the fact that the fiscal effects of those with only a high school diploma are more negative and to account for the fact that recent immigrants with some college have a slightly negative fiscal impact but are not included in the determination of transfers.

Would some places receive transfers even if they do not spend much on services for immigrants?

It is true that the transfers are not directly tied to how much places are spending on services for immigrants, and the program is designed to allow localities flexibility in how they respond to the additional funds. In places with less-generous support systems, it is possible that directing funds toward the education and health sectors will help boost the capacity of those systems. However, forcing this to be the case

would create bureaucratic costs and undermine the spirit of the program, which is to help jurisdictions that are receiving more immigrants. In essence, the proposal's goal is primarily to help states and localities finance the fiscal costs of recent immigrants, rather than to boost spending on that population.

Conclusion

The United States as a whole economically benefits from immigration, and the federal government enjoys positive fiscal impacts from immigration. But the fiscal cost of immigration is disproportionately paid for by state and local governments, particularly in those areas receiving less-educated immigrants who are new to the country. In recent decades, the federal government has recognized the need to compensate—and has in fact compensated—subnational governments for the fiscal effects of federal policies, including immigration. In this proposal, we articulate ways to redirect some of the federal gains from immigration toward those communities that bear its near-term costs.

In developing this proposal, we were guided by four key principles. First, transfers should go to communities that face higher fiscal costs as the result of immigration policy. Second, the size of the transfers should be related to the aggregate fiscal effects from immigration flows. Third, transfers should be visible and transparent. And fourth, to

minimize bureaucratic costs, transfers should piggyback on existing flows between the federal government and subnational governments.

We outline a method for determining those communities most likely to be negatively fiscally affected by immigration inflows. Adult immigrants who do not have a college degree and who arrived in the United States within the last five years tend to pay less in state and local taxes than they receive in state and local benefits in the form of education for their children, health care, and other services.

We propose a transparent and flexible federal per-immigrant transfer through existing education- and health-based federal funding channels to offset these effects.

By transferring funds to communities that bear short-term fiscal costs, our aim is a more equitable allocation of the gains from immigration and increased visibility for the benefits to the US were immigration to increase.

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Endnotes

1. Individuals born in the United States or most US territories, or born outside the United States to at least one parent who is a US citizen and who has lived in the United States for a specified period of time, are US citizens at birth. In this paper we use the term “native born” to refer to anyone who is born a US citizen, and the term “foreign born” to refer to anyone who was not born a US citizen.
2. This proposal sets aside costs that state and local governments might bear to settle recent immigrants or asylum seekers, such as providing temporary housing.
3. Another way the report assesses the fiscal effect of increasing the population through immigration apportions out a share of the entire, existing federal budget to each additional immigrant. Because the federal government runs a deficit, that apportionment suggests that each additional immigrant also contributes to the federal deficit. Relative to the approach describing the estimate change in the deficit, that approach apportioning out the existing deficit is less useful for the proposal described here. In essence, also apportioning out the existing deficit suggests that making the United States population and economy smaller results in a smaller deficit, and a population of zero results in zero deficit—the most positive achievable fiscal effect.
4. The 2015–19 ACS shows that 1,374 (58 percent) of PUMAs exceeded the 0.5 percent threshold, but the ACS data, like all survey data, are subject to uncertainty and error. If the cut-off were extended such that the survey data suggested a 95 percent confidence level that the PUMA exceeded the 0.5 percent threshold, an additional 67 PUMAs would be included. Because the threshold of 0.5 percent is already somewhat arbitrary and easily adjusted by policymakers, we report only the PUMAs that exceed threshold according to the point estimate.



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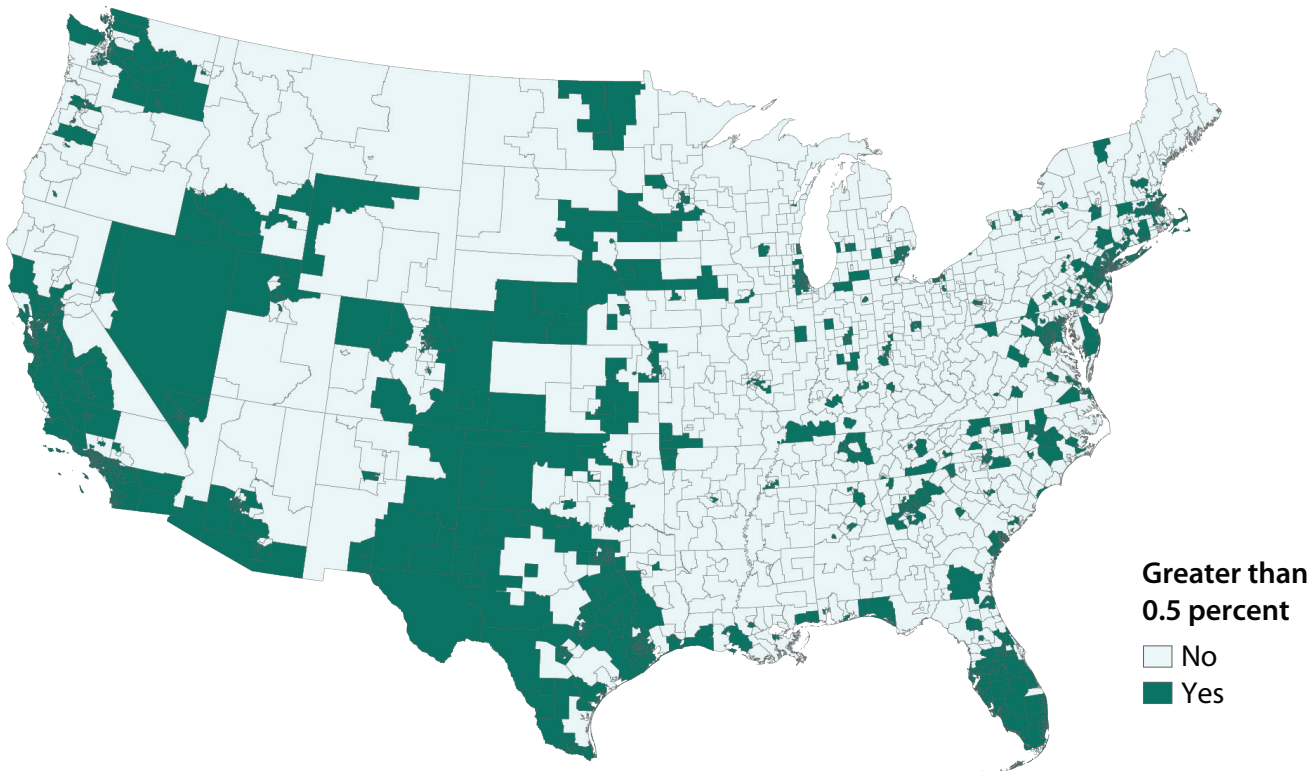
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Immigration is good for the US economy and for the fiscal picture at the federal level, but some local areas experience adverse fiscal impacts when new immigrants arrive. Edelberg and Watson propose a transparent system for redistributing resources from the federal government to these localities. Local areas would receive \$2,500 annually for each adult immigrant who arrived to the US within the past five years without a college degree—those more likely to generate negative fiscal flows at the subnational level. The funds would take the form of unrestricted transfers to local educational agencies through the existing Impact Aid program and to Federally Qualified Health Centers. This support would help to offset educational, health, and other costs to local areas associated with immigrant inflows, and more equitably share the overall fiscal and economic benefits of immigration.

PUMAs with Impact Index Immigrants Greater Than 0.5 Percent of Adult Population



Source: US Census Bureau 2015–19 (American Community Survey); authors' calculations.

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