



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

February 28, 2000

H.R. 3616 **Impact Aid Reauthorization Act of 2000**

*As ordered reported by the House Committee on Education and the Workforce
on February 16, 2000*

SUMMARY

H.R. 3616 would reauthorize and revise the Impact Aid Program under the Elementary and Secondary Education Act of 1965 (ESEA). Under current law, the authorization expires in 2000; H.R. 3616 would extend the authorization through 2004. Under the General Education Provisions Act (GEPA), programs funded by the Department of Education receive an automatic one-year authorization extension. Therefore, the bill would effectively reauthorize the program through 2005. In addition, the bill would establish a minimum payment level for small school districts, introduce a school modernization initiative within the current construction program, and modify certain payment formulas and procedures. It would also repeal two currently unfunded programs that authorize additional payments for disabled students and districts that experience significant increases in federally connected students.

CBO estimates that authorizations under the bill would total \$4.8 billion (with adjustments for inflation) or \$4.6 billion (without such adjustments) over the 2001-2005 period. Assuming appropriations of those amounts, CBO estimates that additional outlays over the five-year period would total \$4.7 billion (with adjustments for inflation) or \$4.4 billion (without adjustments for inflation). These estimates assume a continuation of current funding levels and do not reflect the cost of providing the full payments that would be required under the formulas specified in the ESEA. If full funding of the formulas had been assumed, the estimated costs would be roughly twice the amount that CBO estimates for the bill. Enacting H.R. 3616 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 3616 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Enactment of the bill would benefit state and local governments, and any costs to them would be incurred voluntarily as conditions of federal aid.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3616 is shown in Table 1. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 3616

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
Spending Under Current Law						
Budget Authority	906	0	0	0	0	0
Estimated Outlays	900	93	21	1	0	0
Without Adjustments for Inflation						
Proposed Changes						
Estimated Authorization Level	2	914	914	914	914	914
Estimated Outlays	1	817	891	913	914	914
Spending Under H.R. 3616						
Estimated Authorization Level	908	914	914	914	914	914
Estimated Outlays	901	910	911	913	914	914
With Adjustments for Inflation						
Total Proposed Changes						
Estimated Authorization Level	2	929	944	960	977	993
Estimated Outlays	1	831	919	957	974	991
Spending Under H.R. 3616						
Estimated Authorization Level	908	929	944	960	977	993
Estimated Outlays	900	924	939	957	974	991

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

BASIS OF ESTIMATE

H.R. 3616 would reauthorize and revise the Impact Aid Program under Title VIII of ESEA. The current authorization for Impact Aid expires at the end of 2000 under GEPA. The bill would reauthorize funding for 2000 through 2004; however, programmatic changes would not take effect until 2001. Under GEPA, the program would automatically be authorized for

an additional year; therefore, CBO estimates costs through 2005. In general, the bill would set authorization levels for 2000 equal to actual appropriations and would authorize the appropriation of such sums as necessary for the subsequent years, when the programmatic changes would become effective.

For 2000, the bill would authorize appropriations totaling \$908 million, \$1.5 million more than has been appropriated to date. CBO assumes spending levels for 2001 through 2005 will remain consistent with the 2000 amount except when the bill introduces structural changes that would require additional funding. Spending is projected two different ways: (1) assuming that funding each year is identical to the 2000 authorization, adjusted for program changes, and (2) adjusting the 2000 authorizations for both program changes and projected inflation. With adjustments for inflation, CBO estimates the authorizations would total \$929 million for 2001 and would grow to \$993 million by 2005. Table 2 shows CBO's estimates of projected spending for each program, including adjustments for inflation.

The Impact Aid Program provides assistance to Local Education Agencies (LEAs) that are hindered in their ability to generate local revenues for education by their proximity to federal property. The program provides formula grants to cover a portion of per-pupil education costs, as well as grants to support construction and maintenance needs. H.R. 3616 would continue the program's authorization, introduce minor revisions, and repeal two provisions.

Payments Relating to Federal Acquisition of Real Property

Under subsection 8002(b) of ESEA, grants are made to LEAs to compensate for the loss of local property taxes because of the tax-exempt status of certain federal property. The maximum amount an LEA is eligible to receive is calculated as the assessed value of the property times the appropriate tax rate, less any revenue collected as a result of activities conducted on such federal property. The amount LEAs receive is subject to a hold-harmless provision and is ratably reduced if full funding is not provided. Approximately 100 of the LEAs receiving payments under this section are also eligible for basic support payments under section 8003. Payments under section 8003 compensate LEAs that educate children whose parents' residence or work location partially or fully exempt them from paying local taxes. Under current law, the total payment an LEA receives under both programs cannot exceed its maximum allowable payment as defined by section 8003.

TABLE 2. ESTIMATED BUDGETARY EFFECTS OF H.R. 3616, WITH ADJUSTMENTS FOR INFLATION

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority	906	0	0	0	0	0
Estimated Outlays	900	93	21	1	0	0
Proposed Changes						
Payments for Federal Acquisition of Property						
Payments to LEAs						
Estimated Authorization Level	0	33	33	34	34	35
Estimated Outlays	0	29	32	34	34	35
Additional Payments						
Estimated Authorization Level	2	2	2	2	2	2
Estimated Outlays	1	2	2	2	2	2
Payments for Federally Connected Children						
Basic Support and Heavily Impacted Districts						
Estimated Authorization Level	0	823	836	851	865	880
Estimated Outlays	0	741	818	849	864	878
40 Percent LOT floor for Small LEAs						
Estimated Authorization Level	0	6	6	6	6	6
Estimated Outlays	0	5	6	6	6	6
Payments for Children with Disabilities						
Estimated Authorization Level	0	51	52	53	53	54
Estimated Outlays	0	46	51	52	53	54
Construction Grants						
Formula Construction						
Estimated Authorization Level	0	7	7	7	8	8
Estimated Outlays	0	6	7	7	8	8
School Renovation						
Estimated Authorization Level	0	3	3	3	3	3
Estimated Outlays	0	0	1	3	3	3
Facilities Maintenance						
Estimated Authorization Level	0	5	5	5	5	5
Estimated Outlays	0	1	2	4	5	5
Total Proposed Changes						
Estimated Authorization Level	2	929	944	960	977	993
Estimated Outlays	1	831	919	957	974	991
Total Spending Under H.R. 3616						
Estimated Authorization Level	908	929	944	960	977	993
Estimated Outlays	901	924	939	957	974	991

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

Information from the Department of Education indicates that full funding of section 8002 payments would cost over \$300 million. The cap on total payments specified in section 8003 would reduce this to approximately \$250 million. However, actual funding in 2000 was \$32 million.

The discrepancy between full funding and actual funding increased significantly as a result of changes made in 1994. Before 1994, the property valuation base was the assessed value of similar property. In 1994 the valuation base was changed to a "highest and best" method, under which the value was determined based on property values of adjacent land. In areas with significant growth in property values, the calculation of maximum payments and therefore the basis for allocating actual payments grew comparably. In contrast, areas with little or no growth in property values did not experience such an increase in payments.

The Impact Aid Technical Amendments Act of 1996 (Public Law 104-195) addressed this problem by establishing a payment floor equal to 37 percent of an LEA's 1994 maximum allowable payment. H.R. 3616 would continue this floor, but would revise the procedure for allocating appropriations in excess of the amount required to cover the floor payments. Remaining funds would be allocated based on a combination of the hold-harmless provision and consideration of the "highest and best" assessment. CBO estimates no cost as a result of this revision.

H.R. 3616 would also change the caps on total payments for LEAs that also receive basic support payments under section 8003. The bill would cap total payments at the higher of the maximum amount an LEA is eligible to receive under section 8002 or 8003. The potential costs of this change would be substantial if full funding were to be provided, as many districts have maximum 8002 payments that are much greater than their 8003 maximums. Assuming continuation of past funding trends, however, CBO estimates any increased payments to be negligible.

For payments under section 8002, H.R. 3616 would authorize \$32 million in 2000 and such sums as necessary for the 2001-2005 period. CBO's estimate assumes that total funding for the 2001-2005 period would be \$168 million (assuming adjustments for inflation) or \$160 million (without such adjustments).

Additional Assistance for LEAs Impacted by the Acquisition of Real Property

H.R. 3616 would also continue to authorize additional payments for certain LEAs under subsection 8002(j), a previously unfunded provision. Payments under this section would support LEAs that qualify for payments under subsections 8002(b) and 8003(b) and have

unique circumstances that increase the costs imposed by the existence of federally owned property.

The bill would authorize \$1.5 million for 2000 and such sums as may be necessary for fiscal years 2001 to 2005. Assuming an enactment date and additional appropriations in fiscal year 2000, CBO estimates that this provision would increase budget authority by \$1.5 million and outlays by \$600,000 in 2000. CBO's estimate assumes funding of about \$8 million over the 2001-2005 period.

Payments for Eligible Federally Connected Children

Payments under section 8003 compensate LEAs that educate children whose parents' residence or work location partially or fully exempts them from local taxes. Under subsection 8003(b), eligible LEAs are entitled to compensation based on the product of a weighted count of eligible students and the amount of per-pupil spending that is generated through local tax revenue. If funding levels are insufficient to provide all LEAs with this calculated amount, payments are multiplied by a calculated percentage to compute the learning opportunity threshold (LOT) payment. This percentage is the sum of the LEA's percentage of federally connected students and the ratio of its maximum allowable payment to its total expenditures. This percentage cannot exceed 100 percent. If funding levels are still insufficient, these LOT payments are subject to further ratable reductions.

Based on information from the Department of Education, CBO estimates full funding for 1999 would have been \$1.4 billion. But the program has never been fully funded and, in 1999, the appropriation was \$704 million.

Under subsection 8003(f), certain LEAs are eligible for an additional payment if they have a particularly large percentage of federally connected children. These payments are based on a formula, but subject to appropriations. Payments are ratably reduced when funding is insufficient to cover the costs calculated by the formula. Information from the Department of Education indicates that full funding for 1999 would have been more than \$76 million, compared with the actual appropriation of \$70 million.

H.R 3616 adds several provisions relating to basic support payments under section 8003. First, it would continue an existing practice of allowing students temporarily living off military bases during renovations to retain their previous classification. Second, it would codify language included in previous appropriations bills to reduce payments in cases where property is leased by the federal government. As each of these provisions represents current practice, CBO estimates no additional costs for these provisions.

A third provision would require a LOT minimum of 40 percent for any LEA with fewer than 1000 students that currently spends less per pupil than the average LEA in the state or substate area. CBO estimates this would affect over 300 LEAs (out of a total of 1400) and increase annual costs by \$6 million.

Finally, H.R. 3616 would continue a pilot program, authorized in the 1999 and 2000 appropriation acts, that expedites the disbursement of 8003(f) payments and coordinates 8003(b) and 8003(f) payments for LEAs that receive both. To reflect this change, H.R. 3616 would consolidate the two line items into a single authorized amount of \$809 million for 2000. This amount equals the combined fiscal year 2000 appropriations for the two programs. Taking into consideration the additional costs of the 40 percent LOT floor, CBO estimates the total cost of these payments to be \$829 million in 2001 (with adjustments for inflation) or \$815 million (without the adjustments). Over the 2001-2005 period, the estimate assumes funding of \$4.3 billion (with adjustments for inflation) or \$4.1 billion (without such adjustments).

Payments for Children with Disabilities

Under subsection 8003(d), special payments are made to compensate LEAs that educate a significant number of students with disabilities for the additional costs of educating those students. Districts receive a prorated amount of the appropriation based on the number of eligible children they serve. H.R. 3616 would authorize \$50 million for 2000. CBO's estimate assumes funding of \$263 million (assuming adjustments for inflation) or \$250 million (without such adjustments) over the 2001-2005 period.

Construction

Under section 8008 of ESEA, funds are made available to support school construction or renovation projects for certain LEAs. Only LEAs eligible for basic support payments qualify for payments under this section. In addition, they must qualify for payments under 8003(j) or have at least 50 percent of their students residing on Indian lands or have parents in the uniformed services. Available funds are allocated based on the number of federally connected students. Of the \$10 million provided for construction programs in 2000, just over \$3 million was earmarked for specific LEAs with special construction needs.

H.R. 3616 would permanently set aside 30 percent of funds appropriated under section 8007 for a new school modernization initiative. LEAs with significant repair needs would be eligible to compete for grants if they had no remaining capacity to issue bonds or their facilities posed health or safety threats to their students. Recipients would be required to use

nonfederal funds to cover half of any project costs. Remaining funds would continue to be allocated on a formula basis to qualifying schools, although 50 percent of the funds would be required to go to schools that educate a large number of children residing on Indian land.

H.R. 3616 would authorize \$10 million for 2000 for the construction grants and school modernization initiative under section 8007. CBO estimates the application and matching requirements of the school modernization component would cause spending to occur more slowly than for the current construction grants. CBO estimates that first-year outlays of the estimated \$3 million set aside for the school modernization initiative would be \$300,000. The remaining \$7 million of the construction money is still expected to spend at its current rate, resulting in first year outlays of \$6 million.

For the construction program and the school modernization initiative, CBO's estimate assumes funding of \$53 million (with adjustments for inflation) or \$50 million (without such adjustments) over the 2001-2005 period.

Facilities Maintenance

Section 8008 funds are used to maintain schools that are owned by the Department of Education. LEAs that serve a significant number of federally connected children are allowed to use these facilities, but the department is responsible for the costs of renovations and repairs. Although it is the goal of the department to eventually transfer ownership of these facilities to the LEAs, CBO does not expect the timing of these transfers to decrease funding for 2001.

H.R. 3616 would authorize \$5 million in 2000 for funding under section 8008. Over the 2001-2005 period, CBO's estimate assumes funding of \$26 million (assuming adjustments for inflation) and \$25 million (without such adjustments).

Repeal of Unfunded Authorizations

H.R. 3616 would repeal sections 8003(g) and 8006, both of which were not funded in 2000. Section 8003(g) authorized additional payments for LEAs with disabled students. Section 8006 authorized payments to support sudden and substantial increases in the number of federally connected students.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3616 contains no intergovernmental mandates as defined in UMRA. The bill would reauthorize formula grants to local educational agencies affected by the presence of federal property within their districts. Any costs to state or local governments arising from application for or participation in the grant program would be incurred voluntarily.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Audra Millen

Impact on State, Local, and Tribal Governments: Susan Sieg

ESTIMATE APPROVED BY:

Robert A. Sunshine

Assistant Director for Budget Analysis