

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1155 (Delegate Love) (Chairman, Anne Arundel County Delegation)
 Ways and Means

Primary and Secondary Education - State Supplement to Federal Impact Aid

This bill requires the State to distribute a State Supplement to Federal Impact Aid grant to certain local boards of education. The grant equals the difference between the basic support payment due to the local board as provided in 20 U.S.C. § 7703 and the actual federal payment received. A local board must be eligible for the federal aid in order to receive the supplemental State grant.

Fiscal Summary

State Effect: General fund expenditures could increase by approximately \$32.1 million annually beginning in FY 2005. Revenues would not be affected.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	32.1	32.1	32.1	32.1	32.1
Net Effect	(\$32.1)	(\$32.1)	(\$32.1)	(\$32.1)	(\$32.1)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: State education aid to 11 local school systems could increase by \$32.1 million annually beginning in FY 2005. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: Federal impact aid is distributed directly to eligible local school systems by the federal government. These federal funds do not flow through the Maryland State Department of Education.

Background: Since 1950, the U.S. Congress has provided certain local school systems with financial assistance through the Federal Impact Aid Program. This program is designed to assist local school systems that have lost property tax revenues due to the presence of tax-exempt federal property, or that have experienced increased expenditures due to the enrollment of federally connected children, including children living on military bases. Eleven local school systems in Maryland qualify for federal impact aid as shown in **Exhibit 1**. A majority of the federal funding is provided to Anne Arundel and St. Mary's counties, home to major military installations.

Exhibit 1
Federal Impact Aid in Fiscal 2003

<u>County</u>	<u>Basic Support Payments Section 8003 (b)</u>	<u>Children with Disabilities Section 8003 (d)</u>	<u>Total Federal Impact Aid</u>	<u>Percent of Total</u>
Anne Arundel	\$2,938,557	\$276,540	\$3,215,097	44.6%
Baltimore City	214,003	0	214,003	3.0%
Calvert	138,346	24,010	162,356	2.3%
Charles	379,938	35,130	415,068	5.8%
Frederick	101,977	19,240	121,217	1.7%
Harford	257,983	96,500	354,483	4.9%
Howard	143,140	28,770	171,910	2.4%
Montgomery	125,051	124,570	249,621	3.5%
Prince George's	252,961	36,410	289,371	4.0%
St. Mary's	1,874,331	105,810	1,980,141	27.5%
Washington	<u>30,434</u>	<u>6,250</u>	<u>36,684</u>	<u>0.5%</u>
Total	\$6,456,719	\$753,230	\$7,209,949	100.0%

Source: U.S. Department of Education

Most federal impact aid funds, except for the additional payments for children with disabilities and construction payments, are considered general aid to the recipient local school system and can be used in whatever manner the local school system decides is appropriate. Payments for Children with Disabilities must be used for the extra costs of educating these children. The Federal Impact Aid Program includes four components:

Basic Support Payments (Section 8003 (b))

These grants assist local school systems that educate federally connected children. These children may be the children of members of the uniformed services, children who reside on Indian lands, children who reside on federal property or in federally subsidized low-rent housing, and children whose parents work on federal property. In general, to be eligible for assistance a local school system must educate at least 400 children in average daily attendance, or the federally connected children must make up at least 3% of the school system's total average daily attendance.

Children with Disabilities Payments (Section 8003 (d))

These grants provide additional assistance to local school systems that educate federally connected children who are eligible for services under the Individuals with Disabilities in Education Act (IDEA). These payments are in addition to the Basic Support Payments and IDEA funds provided on behalf of these children.

Payments for Federal Property (Section 8002)

These grants assist local school systems that have lost a portion of their local tax base because of federal ownership of property. To be eligible, a local school system must demonstrate that the federal government has acquired, since 1938, real property with an assessed valuation of at least 10% of real property in the district at the time of acquisition.

Construction Grants (Section 8007)

These grants go to local school systems that educate high percentages of certain federally connected children (children living on Indian lands and children of members of the uniformed services).

State and Local Fiscal Effect: Since the U.S. Congress has not fully funded the Federal Impact Aid Program, basic support payments to eligible local school systems are less than the amounts required by the federal formula calculation. The actual amounts received by local school systems are prorated based on the lower federal appropriation for the program. As shown in **Exhibit 2**, the maximum basic support payments for Maryland school systems totaled \$38.6 million in fiscal 2003. However, the U.S. Congress provided only \$6.5 million in federal funding for the program. Pursuant to this legislation, the State will provide eligible local school systems with supplemental grants to cover any deficiency in federal funds. These grants would have totaled \$32.1 million in fiscal 2003. The actual amount of the State supplemental grants will depend upon the federal formula calculation and the actual federal appropriation for the program.

Exhibit 2
State Supplement to Federal Impact Aid
Basic Support Payments (Section 8003 (b))

<u>County</u>	<u>Maximum Federal Basic Support Payments Owed</u>	<u>Federal Payments Received</u>	<u>Proposed Supplemental State Grant</u>
Anne Arundel	\$13,619,562	\$2,938,557	\$10,681,005
Baltimore City	2,645,935	214,003	2,431,931
Calvert	847,085	138,346	708,739
Charles	2,149,454	379,938	1,769,517
Frederick	1,205,398	101,977	1,103,422
Harford	4,603,551	257,983	4,345,568
Howard	1,366,361	143,140	1,223,221
Montgomery	2,644,907	125,051	2,519,856
Prince George's	4,737,095	252,961	4,484,134
St. Mary's	4,229,467	1,874,331	2,355,136
Washington	552,533	30,434	522,099
Total	\$38,601,347	\$6,456,719	\$32,144,628

Source: U.S. Department of Education

Additional Information

Prior Introductions: None.

Cross File: SB 487 (Senator Jimeno) – Budget and Taxation.

Information Source(s): Maryland State Department of Education, U.S. Department of Education, Department of Legislative Services

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