

NAFIS ISSUE BRIEF # 4

The Learning Opportunity Threshold – When Funds are Insufficient to Fully Fund

Background: Historically the problem with Impact Aid, particularly the Basic Support Program (Section 8003 (b)), has been lack of funding. Insufficient funding and how to best fund districts has been the issue that has been the most divisive. Between the inception of Impact Aid in 1951 through 1969, the program was for the most part fully funded. Beginning in the early 70's through the present, payments under Section 8003 the Basic Support Program have consistently fallen behind the amount needed to fully fund all eligible Section 8003 districts.

Funding shortfalls experienced by highly impacted districts that would plea their case before their congressional delegations were generally addressed through action taken by the House Appropriation Committee. Traditionally through the 70's and 80's the House Appropriation Committee would include language in appropriation bills that would impact the distribution of dollars based on the needs of the day – “squeaky wheels get the grease” – authorizing committees would then follow suit at a later time.

During the reauthorization of 1988, the Impact Aid community almost imploded. The distribution of dollars (the formula) was again as in the past, the issue as Congress felt that a need component should remain in the law. The problem, however, was how to best determine need. As a result, the Impact Aid community became divided over what approach would work the best. It became an internal struggle: Indian versus military versus low rent housing versus highly impacted versus moderately impacted versus low impacted. Five (5) reauthorization proposals were submitted to the House by the Impact Aid community in a matter of days. The House committee threw up their hands while the Senate made a couple of minor changes, with the end result being that the program was essentially reauthorized with no change and a warning, “Get your act together or face the consequences”

1994 – “Improving America’s Schools Act of 1994” brought about a major reform to the program. A bi-partisan plan which included suggestions from the National Association of Federally Impacted Schools, brought a more defined “dependency factor” into the formula when funds are insufficient to fully fund the program. Called the “Learning Opportunity Threshold” – “the second tier formula” (LOT), identified the need of each school district as an individual school district rather than as a part of a category, i.e. Super A, Sub-super A, Regular A, Super B and Regular B.

A comparison of the pre 1994 and post 1994

Pre-1994 second tier formula

Payment amount based on the percentage of federal enrollment

Post 1994 second tier formula

Payment amount based on percentage of federal enrollment + percentage that a LEA’s budget is dependent on Impact Aid dollars

Example: Under the pre-1994 formula there were five payment categories based on the percentage of federal students enrolled (ADA):

Super A – 20% or more of a L.E.A.’s children were category “a” students

Subsuper A – 15% to 19.9% were category “a” students

Regular A – less than 15% were category “a” students

Super B – 20% or more of a L.E.A.’s children were category “b” students

Regular B – less than 20% were category “b” students

A district with 100% category “a” children would be paid the same \$ per federal student as the 20% district. The more heavily impacted districts were facing difficult fiscal times during the 1980’s and 1990’s. The program was cut by over 40% in 1982 and didn’t get back to the pre 1982 period until the mid – 1990’s. The 1994 reforms changed the above by quantifying districts based on a combination of two percentages [% of students and % of operating budget represented by their Impact Aid maximum payment]. Each district now became an individual entity on to itself and was paid under the second tier (LOT) formulae accordingly. Districts near the low end of the 5 categories saw a loss in dollars (3 year hold harmless was included in the law). Some have never gotten over it i.e. the formation of the National Council of Impacted Schools (NCIS). The LOT approach to funding was recognized particularly by the appropriators as better way to define need, and continues today to be considered a rationale approach to funding the program when funds are insufficient. However, the formula did create a problem that at the time was not recognized that now is quite evident and needs to be addressed. The problem with the LOT formula was that dollars were not equally distributed after all districts were funded at 100% of their LOT calculated level. At the time the 1994 reauthorization was being developed, even the Super A districts were being paid at less than 86% of their maximum payment. Because there remained a significant gap between the amounts needed to fully fund a district with a LOT percentage of 100%, there was no thought given to how to distribute dollars when all districts were paid at 100% of their individual district’s calculated LOT percentage. Beginning in fiscal year 1998, appropriation levels had risen allowing all districts to be fully paid at their calculated LOT percentage. Increases in funding continued through fiscal year 2002. Although it was already recognized that the LOT allocation formula used to allocate dollars remaining after all districts were paid at 100% of their LOT percentage calculation was unfair, little action was taken because payments continued to rise (a rising tide raises all ships). Beginning in fiscal year 2003 when appropriation levels began to slow down, not keeping up with increases in the local contribution rate (see Issues Brief # 5), did more districts come to recognize the inequities of the current formula.

The Basic Payment Formula Problem:

It is evident from analyzing the example on the next page that the community needs to review the LOT formula to ensure a more equitable distribution of dollars. The LOT formula concept works fine, as it does provide for a measurement of need. However, when dollars paid out under the LOT formula exceed the amount needed to pay districts 100% of “their” LOT payment, an inequity does occur as the LOT percentage falls:

	District A	District B	District C
Profile:	300 Federal Weighted Student Units	300 FWSU's	300 FWSU's
'05 LCR	\$3,910.50	\$3,910.50	\$3,910.50
Maximum Payment	\$1,173,150	\$1,173,150	\$1,173,150
% of Federal students	95%	22%	56%
% Max/Total Oper.	25%	6%	4%
LOT Percentage	100% (can't exceed 100%)	28%	60%
100% LOT Payment	100% x \$1,173,150 = \$1,173,150	28% of \$1,173,150 = \$328,482	60% of \$1,173,150 = \$703,890
\$ available to			
Pay 135% of LOT	LEA is fully funded	$328,482 \times 1.35 =$ <u>\$443,450.70</u>	$703,890 \times 1.35 =$ <u>\$950,251.50</u>
'06 LCR	\$4,074	\$4,074	\$4,074
Maximum Payment	\$1,222,200	\$1,222,200	\$1,222,200
% of Federal students	95%	22%	56%
% Max/Total Oper.	25%	6%	4%
LOT Percentage	100% (can't exceed 100%)	28%	60%
100% LOT Payment	100% x \$1,222,200 = \$1,222,200	28% x \$1,222,200 = \$342,216	60% of \$1,222,200 = \$733,320
\$ available to			
Pay 126% of LOT	LEA is fully funded +\$49,050	$342,216 \times 1.26 =$ <u>\$431,192.16</u> -\$12,258.54	$733,320 \times 1.26 =$ <u>\$923,983.20</u> -\$26,268.30

While each of the three (3) districts above have the same profile (number of students and local contribution rate for both '05 and '06), they differ in terms of their size (percentage of federal students) and budget dependency. By examining the impact of the drop in the LOT percentage payout (135% in '05 to 126% in '06), the inequity of the LOT formula becomes clear. Despite a drop in the LOT percentage payout between '05 and '06, District A (100 LOT Percentage District) will continue to receive its maximum payment while Districts B and C will see a drop in their payments even though their calculated maximum payment has increased as the result of an increase in the '06 local contribution rate over the '05 rate.

The challenge is to change the LOT distribution to allow all districts to share in an increase in appropriation even when the appropriations increase is insufficient to cover the LOT percentage payout from the previous year, while at the same time providing a payment level (hold harmless) for those districts that will see their payments reduced under a straight pro ration formula which would insure a fair and equitable distribution of dollars both when appropriations rise as well as when they drop.