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One purpose of Public Law 81-874 is to minimize the fiscal inequities caused by both the presence of tax-exempt Federal lands and the burden of providing suitable free public education to federally connected children. In administering the Impact Aid program, the Office of Education (OE) develops policies and procedures and distributes bulletins, instructions, and application forms to local educational agencies (LEAs) through State educational agencies. Payments increased from \$25 million in fiscal year 1951 to \$550 million in 1975, the growth being attributable to such factors as increases in school population, increases in school expenditure per pupil, expanded Federal activity, and amendments liberalizing the basic legislation. Of 100 LEAs reviewed, 93 claimed either more or less than their eligible number of pupils. These LEAs were overpaid a net total of \$212,133. OE has not, except for a few special employment situations, issued regulations or instructions defining the requirements a parent must meet to be considered "employed on Federal property." Documentation should be required to determine that children claimed did reside with civilian federally connected parents. Reviews should be made of State aid allocation formulas relative to the supplant provision of the law. OE should review the data used to compute payment rates. OE instructions do not specify weights to be given criteria in determining comparable LEAs. Without impact aid entitlements, 48% of the 1,671 LEAs analyzed would need annual property tax increases of less than 5%, and 18% would need tax increases from 5% to 10%. LEAs receiving impact aid funds were generally the largest and most prosperous within a State. (QM)

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STATEMENT OF
JAMES D. MARTIN, DEPUTY DIRECTOR
HUMAN RESOURCES DIVISION
BEFORE THE
SUBCOMMITTEE ON ELEMENTARY, SECONDARY, AND VOCATIONAL EDUCATION
OF THE
HOUSE COMMITTEE ON EDUCATION AND LABOR
ON
THE IMPACT AID PROGRAM

Mr. Chairman and members of the Subcommittee. We are pleased to have this opportunity to comment on the results of our work on the impact aid program. The results of our evaluation of this program are contained in our report to the Chairman, House Committee on Education and Labor entitled "Assessment of the Impact Aid program" (HRD-76-116, dated October 15, 1976).

At the request of 14 members of the House Committee on Education and Labor and 2 other Congressmen, we reviewed certain aspects of the impact aid program, authorized by Public Law 81-874, approved September 30, 1950, as amended and administered by the Office of Education (OE). We reviewed (1) the validity of claims for Federal funds, (2) the economic impact of federally connected children on local education agencies (LEAs), (3) impact aid payment rates compared to local education costs, (4) the impact on applicant LEAs of reducing impact aid payments to eliminate claims for parents working on Federal properties located outside the LEA, and (5) the impact on local agencies receiving impact aid of one State's program for equalizing expenditures for public education. In addition, we reviewed the adequacy of OE's regulations and instructions for determining eligibility and payment rates.

We limited our review to LEAs receiving assistance under title I, sections 2, 3(a), and 3(b) of Public Law 81-874, for fiscal year 1973. The Education Amendments of 1974, dated August 21, 1974, changed these sections effective in fiscal year 1976. Although our report deals with LEAs which received assistance in fiscal year 1973, our recommendations on OE procedures for determining eligibility and its instructions and procedures for determining payment rates are still pertinent. The remainder of the report provides information about the program based on various analyses performed.

PROVISIONS OF SECTION 3
OF PUBLIC LAW 81-874

One purpose of Public Law 81-874 is to minimize the fiscal inequities caused by both the presence of tax-exempt Federal lands and the burden of providing suitable free public education to federally connected children. Under title I, section 3, of Public Law 81-874, as amended (20 U.S.C. 238), LEAs are to be compensated for the cost of educating children who while attending such schools (1) resided on tax-exempt Federal property with a parent employed on Federal property or had a parent who was on active duty in the uniformed services--section 3(a)--or (2) were not included in section 3(a) and either resided on Federal property or resided with a parent employed on Federal property--section 3(b).

The legislation does not specify the uses that can be made of such funds. Most LEAs deposit the Federal funds in their general operating expense accounts with all other available funds. The combined funds are used to finance the LEAs' total school programs. The program is not designed to produce specific educational outcomes of school children. The legislation also provides that impact aid funds cannot be used to supplant State funds.

ADMINISTRATION AND FUNDING
OF IMPACT AID

In administering the program OE develops policies and procedures and distributes bulletins, instructions, and application forms to LEAs through State educational agencies. LEAs send applications through their State agencies to OE for review and approval. Payments, however, are made directly to LEAs.

Payments under sections 3(a) and 3(b) increased from \$25 million in fiscal year 1951 to about \$550 million in fiscal year 1975. This growth is attributable to several factors, including increases in school population, increases in school expenditure per pupil, expanded Federal activity, and amendments liberalizing the basic legislation. From 1951 to 1975 the number of children counted under section 3(a) increased from just over 50,000 to about 342,000. For the same period section 3(b) children increased from about 386,000 to 1.6 million.

The fiscal year 1975 appropriation legislation directed OE to pay claims for federally connected children under section 3(a) at 90 percent of entitlements or, if such children comprised 25 percent or more of the LEA's total enrollment, at 100 percent. Section 3(b) claims were to be paid at 68 percent of entitlements.

For fiscal year 1975 the \$550 million available for sections 3(a) and 3(b) totalled about 86 percent of the \$637 million made available for all Public Law 81-874 activities.

BASIS FOR SELECTING LEAS

From the 4,581 LEAs receiving impact aid funds, we selected for review a sample of 100 in 17 States which received \$61.7 million under sections 3(a) and 3(b) in fiscal year 1973. The sample was chosen primarily to test the accuracy of LEAs' claims for payment and to determine how OE applied eligibility criteria to individual LEAs. Selection was based on several criteria including (1) number of eligible children in the LEAs and percent of payments received, (2) the percent of eligible children in the LEA of total number of children in enrollment, and (3) a reasonable geographic distribution.

Because the LEAs in our sample were selected judgmentally, we did not project our findings to all LEAs in the program. The findings apply only to the LEAs studied and the results cannot be used to draw overall conclusions about the impact aid program. The sample LEAs included about 298,000 children claimed as eligible, or 13.5 percent of the total children claimed in the program. The sample LEAs also received funds of nearly \$62 million, or 12.1 percent, of the total section 3(a) and 3(b) payments for fiscal year 1973. The LEAs we reviewed are listed in appendix I in the report.

SCOPE OF REVIEW

At OE headquarters in Washington, D.C., and at HEW regional offices in Atlanta, Boston, Dallas, Denver, Kansas City, and San Francisco, we interviewed officials and reviewed applicable legislation, regulations, policies, and procedures for administering the program. We also examined assistance applications and other records of the 100 LEAs for fiscal year 1973 and interviewed LEA officials. In addition, we reviewed allocation formulas of the States in which the 100 LEAs were located. We gathered data for making our analysis of economic impact of federally connected children on LEAs at OE headquarters. We will discuss the data used in more detail later in the testimony.

VALIDITY OF CLAIMS FOR IMPACT AID FUNDS

Of the 100 local educational agencies we reviewed, 93 claimed either more or less than their eligible number of pupils. In total these LEAs overclaimed a net of \$578,224--slightly less than 1 percent of their total assistance claimed. However, OE program personnel, on the basis of their programmed review of the LEAs' claims at the time of our fieldwork, identified a net of \$366,091 in overclaims and adjusted the claims. Therefore, the LEAs were overpaid a net total of \$212,133.

We brought our findings to the attention of OE officials in a May 30, 1975, letter. OE officials agreed to follow up on these claims and said that payments were not considered final until a detailed review of supporting records had been completed or 3 years had elapsed without such a review.

OE REGULATIONS AND INSTRUCTIONS
FOR DETERMINING ELIGIBILITY NEED
TO BE CLARIFIED AND BETTER ENFORCED

We identified several areas where OE regulations and instructions for determining eligibility need to be clarified and better enforced to minimize the chance of LEAs overstating or understating claims for impact aid funds.

Defining eligibility

OE has not, except for a few special employment situations, issued regulations or instructions defining the requirements which a parent must meet to be considered "employed on Federal property." To document the eligibility of pupils claimed, LEAs use a parent-pupil survey which is a method approved for use by OE. It has accepted claims for pupils whose parents were working temporarily on Federal property on the day the parent-pupil survey was taken, regardless of where the parents were actually employed. OE uses the terms "working on" and "employed on" synonymously. Thus, some LEAs have been reimbursed for pupils whose parents live on and are employed by firms located on private property.

HEW concurred with our recommendation to clarify the requirements that a parent must meet to be considered employed on Federal property.

Identifying eligible children

One frequent error made by LEAs was to claim children who did not reside in the household of the federally connected parent. Of the 100 LEAs, 21 did not have adequate documentation to determine if the child resided with the federally connected parent.

We recommended that documentation be required to determine that children claimed did reside with civilian federally connected parents. HEW said that the instructions in this area would be strengthened but that the situation could be appreciably improved only through extensive field reviews.

Also, OE regulations and instructions do not adequately define the eligibility requirements for a child residing with a parent in the uniformed services. Furthermore, OE procedures for approving claims based on a child's having a parent in the uniformed services do not appear to be consistent with the intent of the law.

We recommended that documentation be required from LEAs to determine whether a child is a dependent of a uniformed services parent. HEW said that the statute expresses no requirement of dependency for a child of a uniformed services parent, and that it is thus not feasible to seek such information. We do not fully agree. The legislative history of Public Law 81-874 suggests that to be eligible the child should be a dependent of a uniformed services parent.

IMPACT AID FUNDS USED TO
SUPLANT STATE FUNDS

For fiscal year 1973--the most recent year with complete data available for review--impact aid funds, by law, could not be paid to any LEAs in States which considered such funds as local resources in determining eligibility for or computing the amount of State aid to be given to individual LEAs. This provision was intended to prevent States from using impact aid funds to supplant State funds. Two States appeared to have been using section 3 funds to supplant State funds violating Public Law 81-874.

We brought this to the attention of OE and recommended that reviews be made of State aid allocation formulas relative to the supplant provision of the law. HEW agreed and said that with the passage of the 1974 amendments to the impact aid law, indepth examinations of State aid programs will occur.

IMPACT AID PAYMENT RATES

An LEA's actual educational costs are not used for determining payment rates because federally connected children influence the revenues available and the amount which the LEA can spend on education. To avoid this problem, the law provides that payment rates be based on the amounts private property owners in generally comparable LEAs pay toward the cost of educating children. The law also establishes a minimum payment rate which is equal to the higher of either one-half the national or one-half the State average expenditure per pupil. However, in no case may the minimum rate exceed the State average expenditure per pupil. The amount of aid provided to an LEA may not be based on a rate lower than the applicable minimum rate.

OE, after consulting with the State educational agencies and LEAs, determines which LEAs are in its judgment generally comparable to the applicant.

HEW regulations provide that payment rates be established, subject to the minimum rates, by either

- grouping all LEAs within a State into generally comparable groups and basing each applicant's payment on its group's average expenditure per pupil from local revenues or
- individually selecting comparable LEAs for each applicant and basing each applicant's payment rate on the comparable LEAs' average expenditure per pupil from local revenues.

The comparability criteria are the same in both procedures; both require OE to compute payment rates using data compiled by the State educational agency or LEAs on expenditures paid from local revenues of comparable LEAs. This payment rate equals the average expenditure per pupil in average daily attendance paid from local revenues--hereafter referred to as the local contribution rate--of the LEAs which are comparable to the applicant.

OE SHOULD REVIEW THE DATA USED
TO COMPUTE PAYMENT RATES

Although local contribution rate data submitted to OE is the basis for selecting comparable LEAs to determine impact aid payment rates, OE does not periodically review the revenue which local and State educational agencies report to determine if it is received from State or local sources. What constitutes local revenue is subject to interpretation because LEAs receive revenue from many sources under a wide array of Federal, State, and local activities. Such interpretations can affect the amount of impact aid funds received.

HEW concurred with our recommendation to review revenue which LEAs and SEAs report to determine if it is received from State or local sources, but indicated that manpower in its regional offices is insufficient to conduct these reviews.

OE INSTRUCTIONS NOT ADEQUATE
FOR DETERMINING COMPARABLE LEAS

OE instructions contain criteria for selecting comparable LEAs which provide for legal classification, grade levels, size as measured by cost per pupil in average daily attendance, geographical size, population density, industrialization, current revenues, aggregate property values, percent of pupils transported, and other relevant factors.

OE instructions for selecting comparable LEAs to determine impact aid payment rates provide no assurance that the LEAs selected are, in fact, comparable. While the cost per pupil is a critical criterion for determining comparability, neither the regulations nor the instructions specify what weight should be given to other criteria. Moreover, OE has not established ranges for each criterion to assist State or local educational agencies in determining comparability. Both of these factors are needed, regardless of the comparable LEA procedure used to make selection of comparable LEAs consistent.

As for specifying the weight that should be given to its published criteria and establishing ranges for each criterion, HEW indicated that it recognized the need for study of this problem, and if the use of a weighting system is deemed advisable it will change existing regulations.

OE procedures for approving rates from individually selected comparable LEAs are not consistent with its instructions for selecting comparable LEAs. It generally does not review the comparable LEAs to determine whether they were selected in a manner consistent with its criteria but compares the resulting payment rates to the applicants' local contribution rates for nonfederally connected pupils. Because the local contribution rate for nonfederally connected pupils is not a criterion stipulated in OE instructions or regulations, few of the LEAs used it in selecting comparable LEAs.

We recommended that procedures be developed by OE for approving Federal payment rates based on comparable LEAs which are consistent with OE's instructions for selecting such LEAs. HEW said that present procedures provide for a review of the criteria for selecting comparable LEAs.

We do not believe that HEW's comments are responsive to our recommendation.

ANALYSIS OF ECONOMIC IMPACT OF FEDERALLY CONNECTED CHILDREN ON LEAS

To respond to the congressional request for an analysis of the economic impact of federally connected children on LEAs, we calculated the tax increase that would be needed if LEAs did not receive payments under the impact aid program. This could be considered an indirect measure of the burden that federally connected children impose on LEAs.

These analyses were based on information in claims totaling \$188 million, made by the 1,671 LEAs in 16 States for aid under title I, sections 2 and 3(a) and 3(b) of Public Law 81-874 for fiscal year 1973. Section 2 allows for payments to LEAs that have had large amounts of property removed from the tax rolls through acquisition by the Federal Government.

Our analyses do not consider the effects on the program of the provisions of the Education Amendments of 1974, effective in fiscal year 1976, which provide payments for students living in low-rent public housing and handicapped students.

LEAs using the individually selected comparable LEA procedure for payment purposes must report on nine criteria such as property valuations and tax rates for all LEAs in that State. The State also sends this information to OE headquarters for verification of the LEA's selection. For both sections of the law, this information is to include LEA property valuations and tax rates. Because the LEAs we analyzed were not selected on a scientific basis, the results of our review are presented as a case study of 16 States and is not necessarily representative of the entire Nation.

For each LEA we determined how much taxes would have to be increased to replace all or a part of their 1973 entitlements. We compared the percentage of impact--that is, the percent of federally connected average daily attendance--for the 1,671 LEAs to the percentage of change in taxes that would be necessary because of loss of aid.

Our analyses were based on school year 1971-72 valuations for taxable property since this was the latest information available. Historical trends in property values indicate that these values were probably much lower than current valuations. We used 100 percent of the impact aid entitlements in our analyses, which exceeded actual impact aid payments over the past few years by 25 to 30 percent, because appropriations have not been adequate to pay full entitlements. The use of these two factors tends to make our results a conservative estimate of the effect that loss of aid would have because they yield higher estimates of tax changes than would actually be necessary.

We analyzed the impact aid program to determine the effects of changes in eligibility and payment provisions. We considered all 4,581 LEAs in the program for fiscal year 1973. In addition, we analyzed data from the 16 States to determine the relationship between increasing percentages of federally connected children and taxable property values and how such a relationship might be reflected in such school financing indicators as tax rates applied to property values to raise revenue for schools, per pupil expenditures, and ratios of pupils to teachers. Correlation analysis was used to test for relationships between percentages of federally connected students and the other factors listed. Details are given in appendix II in the report.

EFFECT OF WITEDRAWAL OF IMPACT AID FUNDS

Without impact aid entitlements, 48 percent of the 1,671 LEAs analyzed would need annual property tax increases of less than 5 percent and 18 percent would need tax increases from 5 to 10 percent.

Our tests of the effect of the withdrawal of only 3(b) entitlements showed that most LEAs could replace their lost entitlements with only a small increase in local property taxes. About 55 percent of the LEAs analyzed would require an increase of less than 5 percent in property taxes, and another 21 percent would require an increase of 5 to 10 percent. Eight percent of the LEAs would require a tax increase of 25 percent or more.

Our estimates of the effect of loss of aid are conservative because we used 100 percent of the entitlements and school year 1971-72 property valuations in our analyses. Whenever funds appropriated for section 3 are not adequate to pay total entitlements, the funds are prorated. Prorations were necessary in fiscal years 1951 and 1955 and in every year since fiscal year 1967. However, even under conservative assumptions concerning loss of aid, our analysis showed that most LEAs would not have to impose major tax increases to replace 3(b) aid.

Because not all States place the same reliance on local property taxes to finance education, large percentage changes in taxes are not always large dollar changes and vice versa. Therefore, we calculated the dollar change in taxes on a home with a market value of \$40,000 to determine whether stating the effects in this manner would show any major differences from the percentage change analyses.

An increase of less than \$50 in annual local property taxes on a home with a market value of \$40,000 would result for 73 percent of the LEAs without their total entitlements, and for 81 percent without their 3(b) entitlements only. Our analyses showed that a great majority of LEAs-- and especially those with low percentages of federally connected children-- could replace their entitlements with only small monetary, as well as percentage, changes in local taxes.

EFFECT OF CHANGES TO PROGRAM
ELIGIBILITY AND PAYMENT PROVISIONS

Previous HEW-financed studies on the effects of federally connected children on LEAs recommended changes in methods for determining eligibility for aid. In general, the proposed changes were intended to develop the concept of paying only for above-average Federal impact in any LEA. These changes and several variations we developed assume different measures for what constitutes above-average impact. Depending on the alternative provisions applied, the proposed changes could reduce total impact aid entitlements by \$68 million to \$351 million, using fiscal year 1973 as a basis.

The bases for the alternatives were eligibility characteristics of the impact aid program and various recommendations made by previous HEW-financed studies to more closely reflect sources of tax revenues. A list of the alternatives and the reduction in impact aid resulting from application of the alternatives is presented as an enclosure to our statement.

The alternative proposals would eliminate much of the aid now received by LEAs with small percentages of federally connected children. For example, under some of the alternatives LEAs with less than 3-percent federally connected students would no longer receive aid. Our analyses show that entitlements to LEAs under the impact aid program are quite sensitive to change in eligibility and payment provisions. Because above average impact can have many definitions, the number of LEAs qualifying as above average and the aid they are entitled to can vary considerably. In general, however, as eligibility and payment provisions become stricter, fewer and fewer LEAs are eligible for aid and a higher percentage of aid would be directed toward those LEAs having larger percentages of federally connected children.

FEDERALLY CONNECTED CHILDREN AND LEA PROSPERITY

We analyzed data from 16 States to determine the relationship between increasing percentages of federally connected children and taxable property values and how such relationship might be reflected in such school financing indicators as tax rates applied to property values to raise revenue for schools, per pupil expenditures, and ratios of pupils to teachers. Taxes available for schools are the product of some measure of property valuation times a tax rate. Assessment rates determine what proportion of total property values will be taxed, and millage rates are the tax rates applied to the assessed valuations. In our analysis tax rate is defined as

the product of the millage rate times the assessment rate and is the rate that would be applied to total property valuation to determine the amount of taxes to be paid. This procedure places all LEAs on the same basic taxing structure.

We further analyzed the data from seven of these States to determine what effect withdrawal of impact aid funds would have on the relationship with tax rates. In general, we found the following conditions to prevail.

1. Increasing percentages of federally connected children tend to show a slight association with higher property values per pupil, but the association is very weak and is not consistent across all 16 States.
2. Increasing percentages of federally connected children generally are associated with lower tax rates to raise revenue for schools, higher per pupil expenditures, and lower ratios of pupils to teachers, but the associations are very weak and are not consistent across all 16 States.
3. Increasing percentages of federally connected children are associated with higher tax rates to raise revenue for schools when taxes are adjusted for loss of impact aid funds, but most of the relationships are moderately weak.

The conclusion for these relationships is that heavily impacted LEAs appear to be associated with favorable school financing indicators but that withdrawal of aid could change the tax relationships considerably if current levels of educational effort are to be maintained. The fact that heavy impact does not show a stronger relationship than it does with taxes adjusted for loss of aid, however, confirms our previous analysis that many LEAs would not require a great

increase in taxes if impact aid was withdrawn. Although our results cannot be considered representative of the entire Nation, they indicate that large percentages of federally connected children do not necessarily indicate serious economic burdens on LEAs.

COMPARISON OF IMPACTED AND NONIMPACTED LEAS

Comparison of impacted and nonimpacted LEAs within a State can show some of the effects of federally connected children on LEAs. The results from 14 of the 16 States in our case study on impacted and nonimpacted LEAs showed that they differed greatly on several important characteristics.

For example, the LEAs receiving impact aid funds were generally the largest and most prosperous LEAs within a State. On the other hand, to raise the same amount of local revenue per child as LEAs not receiving aid, impacted LEAs in most States analyzed, on the average, would have to have higher property taxes than nonimpacted LEAs if the aid were not available. The fact that this was not true in all States showed that the presence of federally connected children does not necessarily create a heavy tax burden. Even in those States where impacted LEAs have high tax rates, many individual LEAs that are impacted have lower tax rates than nonimpacted LEAs.

OTHER MATTERS

In addition to reviewing the validity of claims for impact aid funds, the impact aid payment rates, and the impact of federally connected children on local educational agencies, we developed information on:

- The effect of one State's plan for equalizing educational revenues made available to its LEAs.
- The effect of a recent amendment to Public Law 81-874 on payments to LEAs for children whose parents work on Federal property located outside the LEA's county or State.
- How impact aid payment rates compared to local educational costs.

Our findings are discussed in detail in our report.

This concludes our statement, Mr. Chairman. We will be happy to answer any questions you may have.

Effect of Changes to the Impact Aid Program
Eligibility and Payment Provisions

The bases for the following alternatives were eligibility characteristics of the impact aid program and various recommendations made by previous HEW-financed studies to more closely reflect sources of tax revenues.

The alternatives were:

1. Eliminate LEAs that are eligible solely on the basis of the number of students living in low-rent public housing but are not receiving aid for these students.
2. Reduce the payment rate for 3(b) students to 40 percent of the rate for 3(a) students.
3. Because LEAs generally are not eligible for impact aid funds unless the number of federally connected students exceeds 3 percent of ADA, make payments only for those children who exceed 3 percent of ADA (absorption).
4. In determining whether LEAs meet the 3-percent eligibility requirement, count 3(b) students at 50 percent and pay for them at 50 percent of the 3(a) rate.
5. In determining whether LEAs meet the 3-percent eligibility requirement, count 3(b) students at 40 percent and pay for them at 40 percent of the 3(a) rate.
6. Count 3(b) students at 50 percent in determining eligibility, pay for them at 50 percent of the 3(a) rate, and require the LEAs to absorb 3 percent of ADA before making any payments for federally connected children.
7. Count 3(b) students at 50 percent in determining eligibility, pay for them at 40 percent of the 3(a) rate, and require the LEAs to absorb 3 percent of ADA before making any payments for federally connected children.

Our analyses of the above alternatives for all 4,581 LEAs which received impact aid in fiscal year 1973 showed that total entitlements of \$678.6 million for that year could have been reduced by \$68 million to \$351 million.

Reduction in Impact Aid
Resulting From Application of
Various Eligibility and Payment Alternatives

	<u>Revised</u> <u>entitlement</u>	<u>Reduction</u>
	----- (millions) -----	
1. Eliminate LEAs eligible because of low-rent public housing	\$616.3	\$ 68.3
2. Reduce 3(b) payment rate to 40 percent of 3(a) rate	584.3	94.3
3. Pay for only that number of federally connected children exceeding 3 percent of ADA	511.4	167.2
4. Count 3(b) students at 50 percent for eligibility purposes and pay for them at 50 percent of the 3(a) rate	467.9	210.7
5. Count 3(b) students at 40 percent for eligibility purposes and pay for them at 40 percent of the 3(a) rate	390.0	287.7
6. Count 3(b) students at 50 percent for eligibility purposes, pay at 50 percent of the 3(a) rate, and require 3-percent absorption of ADA before making payments for federally connected children	392.0	286.0
7. Count 3(b) students at 50 percent for eligibility purposes, pay for them at 40 percent of the 3(a) rate, and require 3 percent absorption of ADA before making payments for federally connected children	327.0	351.4

The alternative proposals would eliminate much of the aid now received by LEAs with small percentages of federally connected children. For example, under the last five alternatives, because of the 3-percent absorption requirement, LEAs with less than 3-percent federally connected students would no longer receive aid. Under the last two alternatives, LEAs with up to 6-percent federally connected students would no longer receive aid because, after applying the 3-percent absorption requirement and counting the 3(b) students at 50 percent, the resultant count for eligible students would be less than 3 percent. As a result, larger percentages of the remaining aid would be directed toward those LEAs with 25 percent or more federally connected children.