

# An Operational Look at Federal Impact Aid: The West Point-Highland Falls Example

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**Note:** The opinions expressed herein are my own and do not necessarily reflect the official views of the New York State Education Department.

This is an analysis of funding changes in the Federal Impact Aid program and the effect on the Highland Falls School District. It is Federal policy to provide necessary financial assistance to school districts which have been impacted by Federal activities. However, the situation at Highland Falls illustrates that in practice there has been a divergence between stated policy and the Impact Aid program as implemented over the past decade.

In 1950, with the outbreak of the Korean conflict and subsequent military buildup, Public Law (P.L.) 81-874 established the Federal Impact Aid program in place of several others which had been previously authorized to compensate school districts across the United States that had been impacted by various Federal activities. These activities included Federal acquisition of property and the influx of Federally connected families with school age children.

Most Federal education programs are intended to address the purposes of promotion of equal educational opportunity, stimulation of efficiency and adequate investment in education, and the preservation of diversity and choice in higher education. Impact Aid, however, serves an altogether separate purpose, as compensation to school districts for lost tax revenues and to pay for the education of Federally connected pupils. Impact Aid is not supplementary aid but is intended to meet a Federal obligation to pay for basic educational services.

In Section 1 of P.L. 81-874, Congress declared it to be the policy of the United States to provide financial assistance "for those local educational agencies upon which the United States has placed financial burdens by reason of the fact that—

(1) the revenues available to such agencies from local sources have been reduced as the result of the acquisition of real property by the United States; or

(2) such agencies provide education for children residing on Federal property; or

(3) such agencies provide education for children whose parents are employed on Federal property; or

(4) there has been a sudden and substantial increase in school attendance as the result of Federal activities"

The Federal government thus acknowledged that it had an obligation to compensate school districts both for revenues foregone due to the Federal acquisition of property and for the educational services provided to Federally connected pupils.

Impact Aid, unlike most Federal aid to education, is general rather than categorical aid. Consequently the funds received go into a school district general fund and, except for an extra weighting for Federally connected pupils who are also handicapped, no accounting for the use of funds is required.

The program has several sections to address different types of Federal impact. A school district may apply for compensation under Section 2 when the Federal acquisition of property within the school district since 1938 represents at least 10 percent of the total assessed valuation of all real property in the school district and has placed a substantial and continuing financial burden on the district the revenue loss for which the district is not being substantially compensated. School districts are entitled to receive an amount each year equal to the amount of tax revenue for the property, in an unimproved condition, that has been lost to the district as a result of the Federal acquisition, since Federal property cannot be taxed.

To be eligible for aid under Section 3, a school district must have Federally connected children in the schools totaling either 400 or 3 percent of its average daily attendance (ADA) and at least 10 ADA, whichever is less. There are two classifications of such children. Subsection 3(a) children are those who both reside on Federal property and have a parent either employed on Federal property or in the uniformed armed services. Subsection 3(b) children are those who either reside on Federal property or have a parent employed on Federal property or in the uniformed armed services. School districts are differentially compensated under these two classifications of children, payments for Subsection 3(a) children being much greater because the parents of these children pay no local property taxes and their employer, the Federal government, also pays no taxes.

Subsection 3(d)(2)(b) provides for additional assistance to school districts with 50 percent or more of ADA Federally connected if, even though the school district is making a reasonable tax effort and availing itself of state and other financial assistance, the total funds available to the district are less than that necessary to provide a level of education equivalent to comparable districts in the state. Only a few districts nationwide receive assistance under this Subsection.

Section 6 provides for the free public education of children who reside on Federal property when (a) no state or local tax revenues may be expended, for the education of such children, or (b) no school district is able to provide for the education of such children. Section 6 pupils are military dependents residing on U.S. military bases. There are 17 schools operated for these pupils by the Federal government, including the elementary school at West Point. In addition, there are some Section 6 arrangements under which tuition or other payments are made for those dependents educated in local school districts. The appropriations for Section 6 have since FY82 been in the Department of Defense budget. Appropriations for all other Sections of the program are in the Department of Education Budget.

## EFFECTS OF IMPACT AID REVENUE SHORTFALL

Each national administration since the 1950's has attempted to reduce the Impact Aid program.<sup>2</sup> For the most part, however, the program continued to flourish and appropri-

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ations were generally sufficient to meet the need until the Reagan administration took office in 1981.

From Federal Fiscal Year 1981 to 1982 alone, the national appropriation for Sections 2 and 3 of Impact Aid declined 31% from \$631 million to \$439 million. With the inflation at the time, school districts across the country were faced with the difficult choices of increasing local taxes and/or cutting educational programs.

It has been noted that despite an increase in the overall U.S. Department of Education budget from \$14.5 billion in 1980 to \$15.3 billion in 1983, this increase was \$2 billion short in terms of real dollars because of inflation.<sup>3</sup> Compounding the problem of inflation, the Impact Aid program suffered a drastic decrease in the national appropriation as shown in Table 1. The Highland Falls, New York District was particularly affected and the experience there illustrates the need for the Impact Aid program, and yet how individual districts may be severely affected by change in policy.

### The Highland Falls School District

There has been a long and continuous relationship between the West Point military community and Highland Falls, New York, School District which includes West Point within its boundaries. The school children who live at West Point attend a Federal operated elementary school and then generally go to the high school operated by the Highland Falls District. In the 1988-89 school year, the Highland Falls School District had an enrollment of 1,106, with approximately 600 at the high school level. About one-third of the secondary pupils are from West Point. Almost 15 percent of total enrollment is comprised of pupils from minority groups some of whom are descended from the so called Buffalo soldiers who gained fame in the old West and were later stationed at West Point.

Highland Falls has a relatively low percentage of children living in poverty, 3 percent in 1987-88 compared to 12 percent in Orange County and 18 percent statewide. It has also had a consistently low dropout rate, 1.9 percent in 1987-88 compared to 4.2 in the county and state average of 5.0 percent. Average class size is relatively small, pupil results on standardized tests are well above average and about 78 percent of the high school's graduates go on to college.

The district appears to be below the state average in terms of wealth, by both the property value per pupil and income wealth per pupil measures. In 1986-87 District property wealth was 63.7 percent of the state average and income was 87.5 percent of the average. Of the 16 school districts in Orange county, Highland Falls is only 10th wealthiest, on a per pupil, basis, using a ratio of these two wealth measures combined for comparison. However, it has the 4th highest expenditure rate per pupil in the county with the Federal and State levels of government providing a combined 68 percent of total revenue to the Highland Falls District in 1986-87.

Impact Aid to Highland Falls under Sections 2 and 3 was reduced approximately 18% from the 1980-81 to 1981-82 school years, but after a face-to-face meeting with the Highland Falls Superintendent, the U.S. Secretary of Education promised that some additional money would be found in the Federal budget to help the District with its budget problems.<sup>4</sup>

Highland Falls did, in fact, receive special Federal appropriation amounts of first \$200,000 in 1982-83 and then \$300,000 in 1983-84. However these appropriations were clearly only short term solutions; and in spite of this additional aid the District still had a revenue shortfall for those years, in part because some Impact Aid payments due were made in subsequent school years. At the same time, State aid, although it increased somewhat in total dollars, declined as a percentage of total District revenue, from 56% in 1981 to 52% in 1984. As a result of the continuing financial difficulties and

despite increases in the local tax levy, instructional staff had to be reduced by 15% from 1981 to 1984.

### ACTION TAKEN TO ADDRESS THE REVENUE SHORTFALL PROBLEM

Several steps were taken by the Highland Falls School District to try to extricate itself from its financial difficulties. These included:

- application of additional Impact Aid under Section 3d(2)(B)
- a proposal to transfer a grade from the West Point school to the Highland Falls School District to increase the number of 3(a), pupils which would then increase Impact Aid funding.
- introduction of legislation in Congress that would provide additional assistance to Highland Falls, including one bill for special aid to those school districts impacted by the three major Federal service academies.
- notification to Federal officials that the District might have to close the high school unless the Federal government paid the full local cost of education the West Point secondary pupils.
- seeking special aid from the state

The application for Section 3d(2)(B) aid was denied and U.S. Department of Education officials also opposed the transfer of children from the West Point school to Highland Falls even though that would have meant that the State would pick up a large share of the cost for those pupils. The proposed legislation to provide special aid to school districts due to the service academies was not generally supported and was not enacted.

The situation changed dramatically after legal authorities at the state level ruled that children residing on West Point lands ceded to the Federal government are not residents of New York State and are not entitled to a free education in a public school. Not all of West Point was ceded, but the ceded area includes virtually all of the residents. The Federal government could not, given this legal stand by the state force Highland Falls to continue providing secondary education to these West Point children. State law does, however, permit nonresidents to attend a public school under terms established by the local Board of Education<sup>5</sup> and such terms typically include the establishment of a tuition charge.

Subsequent to the legal decision and beginning 1985-86, a Section 6 contract was arranged to pay tuition equal to the local cost for West Point children to attend the Highland Falls high school. Although ordinarily non-resident tuition pupils would not generate state aid for the district in which they attend school, a special section of state law<sup>6</sup> specifically allows pupils living at West Point to be treated as resident pupils for the purpose of calculating state aid. The Highland Falls School District also began to receive special state grants beginning in 1984-85 as a direct response to the financial difficulties faced by the District.

From 1984-85 to 1985-86, then, fundamental changes in funding for the Highland Falls School District had developed. Although the District continued to receive Impact Aid under Section 2, primary funding under Impact Aid shifted to Section 6. Additionally, special state grants were appropriated to the District and have continued on an annual basis as needed. The amounts of these Federal and state aids by school year are given in Table 2.

### FOCUS ON SECTION 2 AID

Although not the major section of the Impact Aid program, Section 2 is very important to those few districts which do qualify for these funds. During World War II West Point expanded greatly and thousands of acres were acquired at the

time. With the most recent acquisition occurring in 1985, Federal ownership according to school district officials now amounts to 65% of the total land area of the district. Another 14% is state owned and 13% is tax exempt because of ownership by the town, churches, other non-profit organizations, or by senior citizens or veterans eligible for property tax exemptions. State law requires that state lands be taxed at the same rate as privately held lands<sup>7</sup> but the Federal lands are exempt. Of course land area does not necessarily equate to land value but because only 7% of school district land is privately owned and fully taxed, and many residents are retirees on fixed incomes, it became relatively harder for the Highland Falls District to raise needed revenue after the Federal acquisitions.

Section 2 payments to individual school districts depend in part on the number of applicant districts in a given year and as well as the level of funds available from the appropriation. Through most of the 1980's Section 2 was funded at or near full entitlement, but this has changed in recent years. The appropriation for Section 2 declined from \$22 million in 1987 to \$15.3 million in 1990 even though it was estimated that \$22 million would continue to be needed.<sup>8</sup> Consequently school districts will be ratably reduced to 78% of their 1988 entitlement and for 1989 and 1990 it appears they may be paid only 70% of entitlement.

The vast majority of tax-exempt property in the District is Federally owned, so it is crucial to the school district that Section 2 payments be fair. However, the Department of Education makes Section 2 payments on the basis of either the entitlement, as determined by the property assessment times the tax rate, or a need entitlement, whichever is lower. The need entitlement is essentially the Federal share of needed property tax revenue determined after all other revenues have been subtracted from total current expenditures. Since this determination is usually not finalized until the conclusion of a school year, any special State aid reduces the apparent need for Section 2 funds and shifts a greater share of the revenue burden to state tax payers.

Properties in the town of Highland Falls have recently been re-assessed and although the Federal properties have been assessed at \$120 million, Federal officials are apparently only willing to accept an assessment of about \$94 million. This would yield a marginal increase in the Section 2 aid to Highland Falls because even though it would increase the assessed value of Federal property as a percentage of total district property from about 23-25 percent, ratably reductions and adjustments to payments based on apparent need would lower the actual amount paid.

The Federal position in this matter is that Federal assessments must by regulation be determined in relation to assessments on comparable properties in an unimproved condition, rather than on the full potential value of the property.<sup>9</sup> Adjoining privately owned property which was once farmland might now be covered by housing developments and industries, for example, yet the Federal land would still be assessed only on the basis of its value as farmland.

### Summary and Conclusion

Clearly the Federal government has a responsibility to provide financial support for the education of Federally connected pupils. In fact this is the whole premise on which the Impact Aid program is based. The Federal government has contended that in general, Impact Aid is no longer needed to the extent it was in the past because of major increases in state aid, and a broader tax base in school districts due to development and economic benefits brought by Federal installations.

The case of Highland Falls illustrates that these arguments are in conflict with the issue of Federal responsibility and fairness. Highland Falls is educationally a strong school

district with superior results in terms of the achievements of pupils but it is relatively small and not financially strong, relying on special state grants to help balance its budget and continually struggling to obtain an equitable amount of Federal Section 2 aid. Total assessment on Section 2 properties as accepted by Federal officials is, according to local assessment, below true market value. Because so much of Highland Falls property is Federally owned and Section 2 aid is first, based on the lesser of entitlement or need and, second, ratably reduced, Section 2 aid to the District is less than what is needed. State aid to Highland Falls on the other hand is far above what it ordinarily would be because of the inclusion of West Point pupils in determining district wealth and in the state aid computations. Yet, this is not been enough and Highland Falls has additionally had to obtain special state grants.

It may be that a Federal presence can stimulate development and other economic activity in some areas but this is not always the case. In a Federal Report on Impact Aid it was noted that there is no generally accepted method for distinguishing between those areas in which the Federal presence results in economic growth and more taxable property and those where it results in net tax losses.<sup>10</sup> Development within Highland Falls is clearly restricted by the fact so little land is available for development. It has pointed out that the economic benefits of Federal installations are mitigated by the fact that not only can residences on Federal property not be taxed, but that frequently military personnel are able to shop in Federally subsidized stores from which no local taxes are generated, and that under the Soldiers and Sailors Relief Act, can claim their official residence in states with no income taxes or law vehicle registration fees.<sup>11</sup>

The special state grants are only short-term solutions to the financial problems of this District just as were the special Federal aid appropriations in the early 1980's. Special grants are not guaranteed and the District must make its case for a grant anew each year and the sponsoring legislator must then convince legislative leaders that the grant is needed and essential. This makes proper budget planning extremely difficult and a continued reliance on special grants is certainly not in the best interests of the District.

Long-term, more permanent solutions need to be found stabilize the financial situation of this District. Although it is problematic to judge what tax benefits might have occurred from alternative land use, a change in Federal regulations which would allow Section 2 assessments to be based on comparative market value rather than on the outdated use of the land at the time it was taken, would be more fair to Section 2 districts. It would also help if Impact Aid appropriations were increased so Section 2 could once again be fully funded and of all payments were equal to entitlement. As mentioned, this would take only about \$7 million increase in the Section 2 appropriation but, of course, should not be done at the expense of other sections of Impact Aid which are also underfunded.

The relatively narrow tax base of Highland Falls caused by Federal acquisitions is a major source of the problem of inadequate revenue. If increased aid through changes in Section 2 is not going to be forthcoming, and if the District cannot within its narrow tax base raise sufficient local revenue, it might become necessary to consider consolidation with a larger, neighboring school district so that the tax base is broadened and economies of scale can be realized. This would unfortunately terminate the special relationship enjoyed by West Point and the Highland Falls School District, but may be the only way to achieve long term stability to the problem of providing educational services to the West Point and Highland Falls pupils. If so, it would indicate failure on the part of the Federal Government to assume its responsibilities in accord

with its own stated policy by not adequately maintaining the program it established to aid school districts such as Highland Falls which have been impacted by Federal activities.

**Table 1**  
**Federal Impact Aid Appropriation Amounts**  
(in millions of dollars)

Fiscal Year	Section 2	Section 3
1990	15.35	702.000
1989	14.82	693.576
1988	15.32	670.178
1987	22.00	663.000
1986	22.00	614.405
1985	22.00	643.000
1984	20.00	534.000
1983	15.00	435.000
1982	9.60	428.898
1981	12.35	619.400

Source: U.S. Department of Education

**Notes**

1. See Walter I. Garms, James W. Guthrie and Lawrence C. Pierce. *School Finance: The Economics and Politics of Public Education* (Englewood Cliffs, N.J.: Prentice Hall Inc., 1978)
2. Commission of the Review of the Federal Impact Aid Program, "A Report on the Administration and Operation of Title I of Public Law 874," September 1, 1981.
3. James R. Jones, "The Role of the Federal Government in Educational Policy Matters: Focus on Finance," *Journal of Education Finance* (Fall, 1984): 238-255.
4. *Education Daily* January 7, 1983, 3.
5. Section 320(2), New York State Education Law.
6. Section 3602(2) (e), New York State Education Law.
7. Section 542, New York State Real Property Tax Law
8. National Association of Federally Impacted Schools, Impact, February, 1990,5.
9. Code of Regulations, 34 Part 222.99.
10. Commission on the Review of the Federal Impact Aid Program, "A Report on the Administration and Operation of Title Q of Public Law 874," September 1, 1981.
11. Thomas R. Shipley, "Concepts of School Finance", presented at State Federal Finance Coordinators annual meeting, Orlando, Florida, October, 1986.

**Table 2**  
**Aids Received by the Highland Falls School District 1981-82 to 1988-89**

Federal Impact Aid	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Section 2	244,045	360,097	346,415	509,185	495,141	536,060	336,247 (est.)	379,191 (est.)
Section 3	246,602	245,529	248,464	302,649	—	—	—	—
Section 6	—	—	—	—	565,000	701,000	682,183	773,041
Special Appropriation	—	200,000	300,000	—	—	—	—	—
State Grant	—	—	150,000	150,000	150,000	220,000	700,000	350,000

Sources: U.S. Department of Education and Defense, New York State Education Department.