

The *NEVADA PLAN* For School Finance

An Overview



**Fiscal Analysis Division
Legislative Counsel Bureau**

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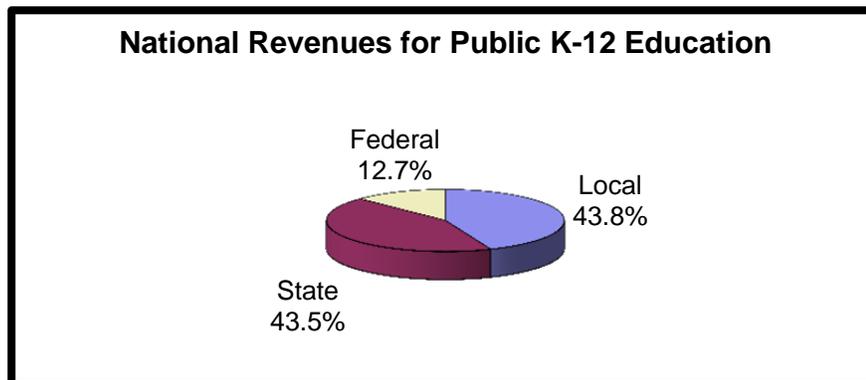


Nevada Plan for School Finance

I. Overview of Public K-12 Education Finance

The National Center for Education Statistics reports that approximately \$597.5 billion was collected in revenues for public elementary and secondary education in the United States in FY 2010. These revenues are used to support the operations of schools, as well as capital construction, equipment costs, and debt financing, and come from a combination of local, state and federal sources. The greatest percentage of revenues came from state and local governments, which together provided \$521.5 billion or approximately 87 percent of all revenues; the federal government's contribution was \$76.0 billion, or approximately 13 percent of all revenues (Figure 1). Due to the differing financing mechanisms utilized in each of the states, there are tremendous differences between these nationwide averages and the percentages found in some states, thus making it difficult to make meaningful comparisons. For example, among states with more than one school district, local contributions to the funding mix vary from 7.8 percent in Vermont to 59.2 percent in Illinois. Local funding's share in Nevada is second highest nationally at 58.8 percent. It should be noted that a large portion of the local funding in Nevada is derived from the state-mandated Local School Support Tax (LSST) and Ad Valorem Property/Mining Tax.

Figure 1. The Public Education Dollar: Revenues by Source FY 2010

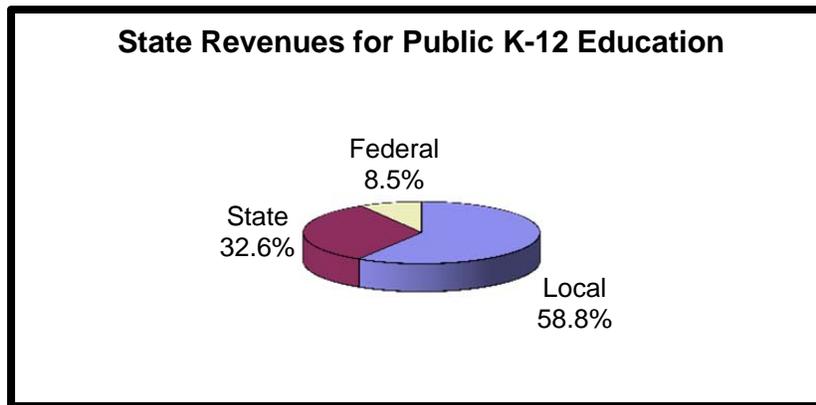


Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," FY 2010, provisional Version 1a.

Total expenditures generally include all types of expenditures for public elementary and secondary education; however, only the operating expenditures are used when comparing education spending between entities or across time. This is because current operating expenditures exclude capital outlays, which tends to have dramatic increases and decreases from year to year. Operating expenditures (excluding construction, equipment, and debt financing) for public elementary and secondary schools in the United States in FY 2010 were approximately \$525.5 billion.

Like the nationwide support for education, financial support of Nevada’s public elementary and secondary schools is a shared responsibility. The National Center for Education Statistics reports revenues in support of Nevada’s schools for FY 2010 exceeded \$4.31 billion. Figure 2 depicts the approximate funding mix of revenues in Nevada’s public K-12 schools.

Figure 2. The State of Nevada: Revenues by Source FY 2010



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," FY 2010, provisional Version 1a.

Just as there are differences between the national averages and Nevada’s sources of revenue for public education, there are differences between Nevada’s averages and what might be found in any given Nevada school district. For example, due to the wealth created by the mining industry in Eureka County, less than 1 percent of the combined general and special education fund revenue in the Eureka County School District came from state aid in FY 2012. On the other hand, the Lincoln County School District received approximately 81 percent of its combined general and special education fund revenue from state aid.

II. History of Public K-12 Education Funding in Nevada

For over 20 years, changes in Nevada’s tax policy have impacted the share of revenue each level of government contributes to fund our schools (Appendix A). For example, to provide some relief to taxpayers, the 1979 Legislature reduced the property tax rate for school district operations from \$1.50 (70 cents mandatory and 80 cents optional) to 50 cents per \$100 of assessed valuation. General Fund appropriations to the state’s Distributive School Account (DSA) were increased to offset the effects of reducing property tax revenue for schools and of removing the sales tax on food. To reduce the cost to the State General Fund, the Local School Support Tax (sales tax), commonly referred to as the LSST, was increased from 1.0 percent to 1.5 percent in 1981. As a result of the 1981 “tax shift,” which substituted sales tax for property tax, local governments were hit hard when sales tax revenues failed to reach estimates during the 1983 national recession. In response to the revenue shortfall, the 1983 Legislature increased the property tax rate for local school districts by 25 cents (from 50 to 75 cents) and placed the extra 25 cents in the *Nevada Plan* formula to offset State General Funds.

The next major change in sources of funding for Nevada's schools occurred in 1991, when the LSST increased from 1.5 percent to 2.25 percent, which further reduced the need for State General Funds. The LSST rate was later increased by 0.35 percent (from 2.25 percent to 2.60 percent) for the period beginning July 1, 2009, until June 30, 2011, as part of the revenue enhancements approved by the 2009 Legislature. The 2011 Legislature voted to maintain the LSST rate at 2.60 percent and extend the sunset to June 30, 2013. Most recently, the Governor has recommended keeping the LSST rate at 2.60 percent for the 2013-15 biennium.

In 1999, the Nevada Legislature combined the Class-Size Reduction (CSR) Program with the DSA. Historically, the CSR Program had been funded with revenues from estate taxes and State General Fund appropriations. As a result of the passage of the federal Economic Growth and Tax Relief Reconciliation Act of 2001, the estate tax revenues in the DSA declined and have since been eliminated. Nevada's allowable "pickup tax" credit was reduced by 25 percent in 2002, by 50 percent in 2003, by 75 percent in 2004, and repealed in 2005. During the same time period Nevada also realized a reduction in revenue from the estate tax because of changes to the exemption threshold, which increased from \$675,000 in 2001 to \$1 million in 2002 and to \$1.5 million in 2004.

Initiative Petition (IP) 1, though not signed by the Governor, became law in 2009 pursuant to Article 4, Section 35 of the Nevada Constitution. The initiative imposes an additional tax on the gross receipts from the rental of transient lodging in certain counties. Pursuant to the language of the initiative, the proceeds of this tax was credited to the State General Fund between July 1, 2009, and June 30, 2011. Beginning July 1, 2011, the tax proceeds were supposed to be credited to the State Supplemental School Support Fund to be distributed proportionally among all school districts and charter schools in the state to improve the achievement of students and to retain qualified teachers and non-administrative employees. However, the 2011 Legislature approved the transfer of all IP 1 revenue over the 2011-13 biennium from the State Supplemental School Support Fund to the DSA. For the 2013-15 biennium, the Governor has proposed to extend the transfer of the IP 1 revenues as a revenue source in the DSA budget account.

The 2011 Legislature approved Senate Bill 11, which instructed to the Legislative Commission to appoint a committee (known as the Committee to Study a New Method for Funding Public Schools) to conduct an interim study concerning the development of a new method for funding public schools in Nevada. After contracting with a consultant to assist with the study, the committee made various recommendations, including a bill draft request to include the definition of the data modules of the school finance model and the basis for the allocation of special education funding in statute; a recommendation that the state consider moving to a weighted funding formula that considers individual needs and characteristics of student populations; and a recommendation that the state consider alternatives to the single count day approach for determining enrollment for apportionment purposes.

III. The Nevada Plan

The *Nevada Plan* is the means used to finance elementary and secondary education in the state's public schools (NRS 387.121). Under the *Nevada Plan*, the state develops a guaranteed amount of funding for each of the local school districts and charter schools. The revenue, which provides the guaranteed funding, is derived both from state and local sources. On average, this guaranteed funding contributes approximately 75 to 80 percent of school districts' and charter schools' general fund resources. *Nevada Plan* funding for school districts and charter schools consists of state support received through the DSA and locally collected revenues from the 2.60 percent LSST and one-third of the proceeds from the 75-cent ad valorem property tax rate imposed pursuant to NRS 387.195.

To determine the level of guaranteed funding for each school district and charter school, a basic per-pupil support amount for each district is established in law each legislative session. The amount is determined by a formula that considers the demographic characteristics of school districts. In addition, transportation costs are included using 85 percent of the actual historical costs adjusted for inflation according to the Consumer Price Index. A Wealth Adjustment, based on a district's ability to generate revenues in addition to the guaranteed funding, is also included in the formula.

The corresponding basic per-pupil support amount is then multiplied by a school district's or charter school's weighted apportionment enrollment. The official enrollment count for apportionment purposes is taken on the last day of the first school month (count day) for each district and charter school. The number of kindergarten children and disabled three- and four-year-olds is multiplied by 0.6 percent and added to the total number of all other children enrolled, net of transfers, to derive the total weighted apportionment enrollment.

To protect districts during times of declining enrollment, *Nevada Revised Statutes* contains a "hold harmless" provision (NRS 387.1233). The guaranteed level of funding is based on the higher of the current or the previous year's enrollment, unless the decline in enrollment is 5 percent or more, in which case the funding is based on the higher of the current or the previous two years' enrollment.

An additional provision (NRS 387.1243) assists school districts and charter schools that experience significant growth in enrollment within the school year. If a school district or charter school's enrollment grows by 3 percent or more, but less than 6 percent after the second school month, a growth increment consisting of an additional 2 percent of basic support is added to the guaranteed level of funding. If a district grows by 6 percent or more, then the total growth increment is 4 percent.

Special Education is funded on a "unit" basis, with the amount per unit established by the Legislature. These units provide funding for licensed personnel providing a program of instruction in accordance with minimum standards prescribed by the State Board of Education. Special Education unit funding is provided in addition to the basic per-pupil support amount.

The difference between total guaranteed support and local resources is state aid, which is funded through the DSA. Revenue received by the school district from the LSST derived from in-state sales and from one-third of the proceeds from the 75-cent property tax rate is deducted from the school district's or charter school's total basic support guarantee to determine the amount of state aid the district or charter school will receive. If local revenues from these two sources are less than anticipated, state aid is increased to cover the shortfall in total guaranteed support. Conversely, if these two local revenues exceed projected levels, state aid is reduced.

In addition to revenue guaranteed through the *Nevada Plan*, school districts receive other local revenues considered "outside" the *Nevada Plan* that are not built into the state guarantee. Charter schools are allocated "outside" revenues proportionally by the district in which a charter school is located. Because these other local revenues are not guaranteed, school districts and charter schools benefit when actual "outside" revenues are in excess of projections or incur the loss when these revenues do not meet projections. Other local revenues "outside" the *Nevada Plan* include the following: two-thirds of the proceeds from the 75-cent ad valorem property tax rate; the share of basic government services tax distributed to school districts; franchise tax; interest income; tuition; unrestricted federal revenue, and other local revenues.

In addition to revenues both "inside" and "outside" the *Nevada Plan*, school districts and charter schools may receive "categorical" funds from the state, federal government, and private organizations that may only be expended for designated purposes. Examples include the state-funded Class-Size Reduction program, Early Childhood Education, Career and Technical Education, and Education Technology. Examples of federally-funded programs include the Title I program for disadvantaged pupils, No Child Left Behind Act, the National School Lunch program, and Individuals with Disabilities Education Act (IDEA). Categorical funds must be accounted for separately in special revenue funds. Funding for capital projects, which may come from the sale of general obligation bonds, "pay-as-you-go" tax levies, or fees imposed on the construction of new residential units, are also accounted for in separate funds (Capital Projects Fund, Debt Service Fund).

IV. Components of the Nevada Plan

Appendix B is a diagram that should aid in understanding the combination of revenues that are used to support public elementary and secondary education in Nevada. The top circle represents the basic level of financial support for schools that is guaranteed by the *Nevada Plan*. This includes funding from the DSA as well as "inside" local revenue. The middle circle that overlaps with the top circle represents "outside" local and non-categorical federal revenue that is not part of the *Nevada Plan*. The bottom two circles represent other sources of non-*Nevada Plan* revenue for school districts in Nevada.

Nevada Plan funding is guaranteed by the state in the sense that if local “inside” revenues (LSST and one-third of the proceeds from the 75-cent property tax) fall short of expected levels, the state makes up the difference. Conversely, if local “inside” revenues exceed estimates, state aid through the DSA is reduced. Revenues from “outside” local and non-categorical federal sources do not impact the amount of state aid a district receives; however, “outside” revenues are considered when determining each school district’s wealth adjustment.

Below is a list of Nevada schools’ funding sources and their various revenue components:

DSA Funding

- State General Fund
- A share of the annual slot tax
- Investment income from the permanent school fund
- Federal mineral land lease receipts
- Out-of-state LSST revenue that cannot be attributed to a particular county

“Inside” Local Funding

- LSST
- One-third of the proceeds from the 75-cent property tax

“Outside” Local Funding

- Two-thirds of the proceeds from the 75-cent property tax
- Share of basic government services tax distributed to school districts
- Franchise taxes
- Interest income
- Tuition
- Rent
- Opening General Fund balance

Non-Categorical Federal Funding

- Impact received in lieu of taxes for federally impacted areas
- Forest reserves

Federal Categorical Funding

- Nutrition Education (e.g., National School Lunch Program)
- Title I Program
- Special Education Programs
- Vocational Education Programs
- Other School Improvement Programs, including programs under the No Child Left Behind Act of 2001

Other Funding

- Capital Projects – General Obligation Bonds
- “Pay as You Go” Debt Service

V. The Funding of Schools in Nevada – FY 2012 Actual

The pie chart and table included in Appendix C illustrate Nevada schools' General Fund revenues for FY 2012. Revenue "outside" the *Nevada Plan* is depicted by the slices removed from the pie (local – 19.49 percent and federal – 0.26 percent). The *Nevada Plan* revenue (total guaranteed support) is the rest of the pie (80.26 percent).

VI. Biennial Distributive School Account (DSA) Budget Preparation

To prepare a biennial budget for Nevada's public schools, estimated General Fund expenditures for charter schools and each of the 17 school districts are combined into a single, statewide budget for each year of the upcoming biennium. All estimated costs, including Adult High School Diploma programs and special education costs that are funded by state or local revenues, but tracked separately in funds other than schools' General Funds, are included in the budget. Federal categorical funds, such as those received through the No Child Left Behind Act and the Individuals with Disabilities Education Act (IDEA) are not included in this budget of General Fund expenditures, but do contribute significantly to the total amount of funding available to local schools.

Schools' opening fund balances and local revenues considered "outside" the formula are deducted to derive a guaranteed level of funding, called the state guarantee. Local revenues "outside" the formula are not built into the state guarantee. Thus, local school districts benefit when actual "outside" revenues are in excess of projections and incur the loss when these revenues do not meet projections.

Next, the costs of programs which are not allocated to schools on the basis of enrollment, such as the costs of adult high school diploma programs and special education program units, are subtracted to yield statewide basic support which, in turn, is divided by the estimated (weighted) enrollment for the year to determine the statewide average basic support per pupil for each fiscal year in the coming biennium. In summary, the estimated need, minus local revenues "outside" the *Nevada Plan*, is divided by the number of pupils to determine a statewide average basic support per pupil that will be guaranteed by the combination of state DSA funding and local revenues "inside" the plan.

From the statewide average basic support per pupil, the State Department of Education calculates a separate basic support per pupil figure for each school district, using a formula that considers the economic and geographic characteristics of each district. The dollar amount of basic support differs across school districts due to variations in the cost of living, differences in the costs of providing education as a result of school size, and the cost per pupil of administration and support services. A wealth adjustment, based on each district's ability to generate revenue in addition to the guaranteed level of funding, is also included in the formula.

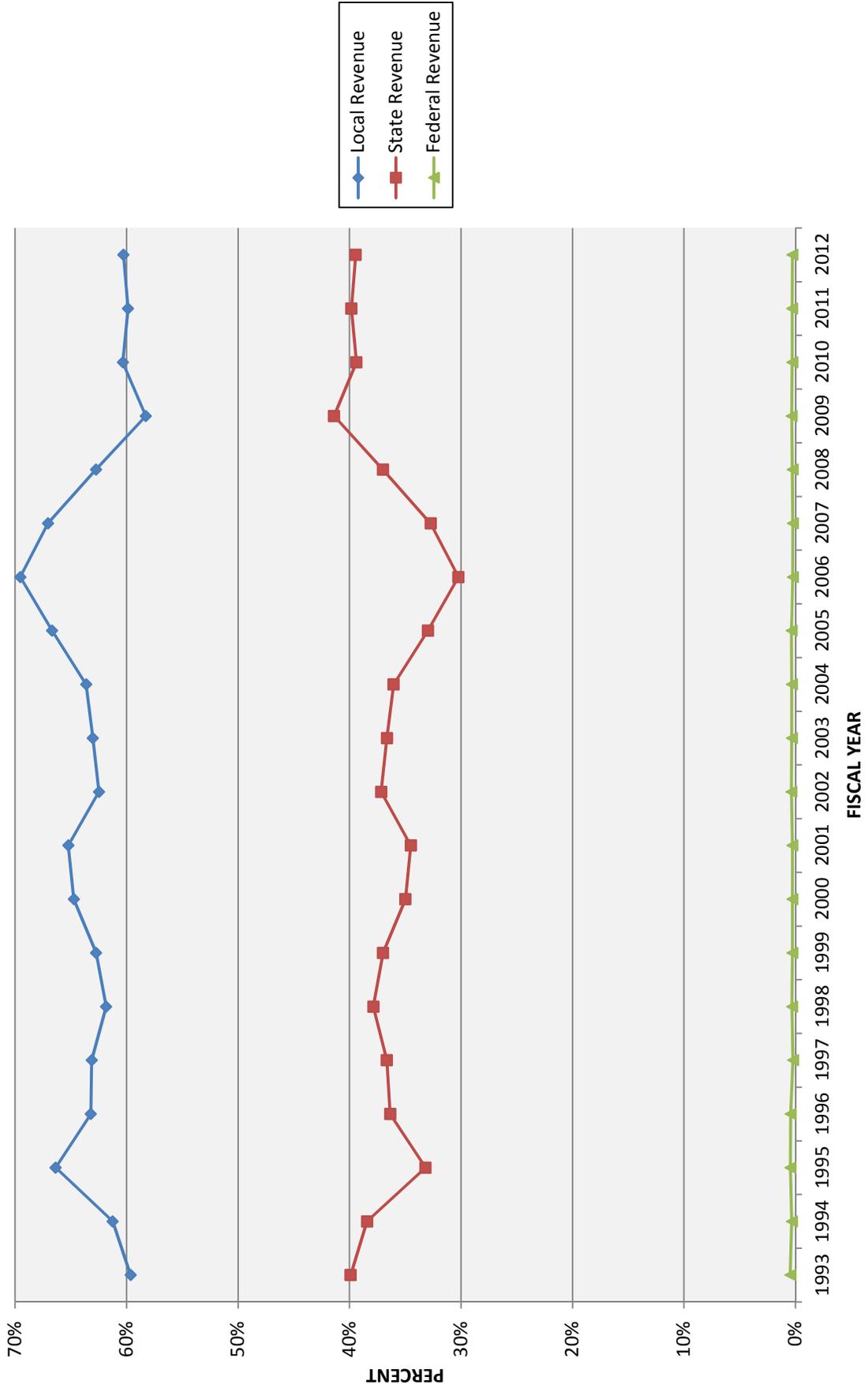
Since funding through the *Nevada Plan* is based on a guaranteed amount of basic support per pupil set forth in law during each legislative session, the only way to increase the total amount to be received through the *Nevada Plan* is if enrollment increases. If, on the other hand, enrollment fails to meet projections, schools will receive less money than expected, because a given dollar amount per pupil is guaranteed only for those pupils enrolled.

VII. The *Nevada Plan* – An Example

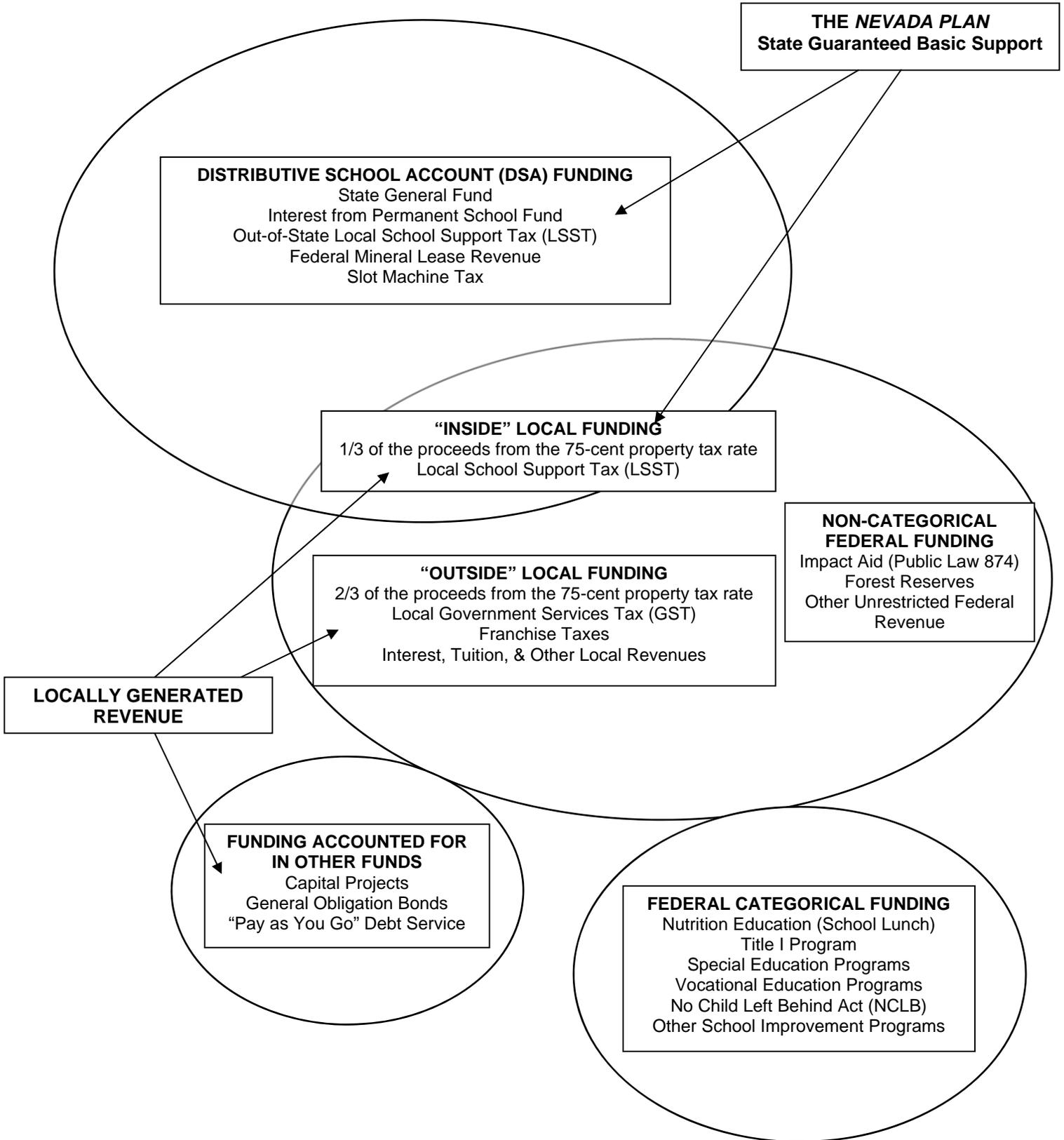
A step-by-step description of how the *Nevada Plan* works appears in Appendix D. A numerical example based on a hypothetical school district is also included. To better understand how the *Nevada Plan* works, follow the steps in the example.

NEVADA SCHOOLS' COMBINED GENERAL & SPECIAL EDUCATION RESOURCES

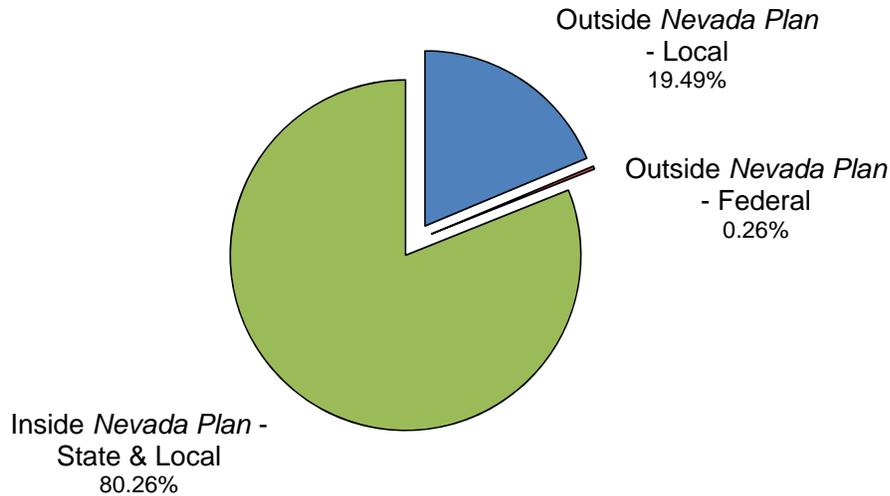
Percent by Source: FY 1993 - FY 2012



THE FUNDING OF SCHOOLS IN NEVADA



FY 2012 - Schools' General Fund Revenues



NON-NEVADA PLAN REVENUE:

"OUTSIDE" LOCAL REVENUE:

2/3 of the proceeds from the 75-cent property tax rate	\$425,421,685		
Other (GST, Franchise Tax, Interest, Sale of Assets)	\$121,040,816		
TOTAL "OUTSIDE" LOCAL REVENUE		\$546,462,501	
% of Total Revenue			18.68%

"OUTSIDE" NON-CATEGORICAL FEDERAL REVENUE:

Impact Aid (P.L. 874)	\$2,432,094		
Forest Reserve	\$744,895		
Other Federal Revenue	\$4,689,300		
TOTAL "OUTSIDE" NON-CATEGORICAL FEDERAL REVENUE		\$7,866,289	
% of Total Revenue			0.27%

NEVADA PLAN REVENUE:

1/3 of the proceeds from the 75-cent property tax rate	\$210,424,266		
Local School Support Tax (sales tax)	\$1,006,701,237		
State Responsibility (through Distributive School Account)	\$1,148,131,254		
TOTAL NEVADA PLAN REVENUE	<u>\$2,365,256,757</u>		
% of Total Revenue			
OTHER STATE SUPPORT	<u>\$5,974,683</u>		
TOTAL STATE REVENUE		<u>\$2,371,231,440</u>	81.05%

TOTAL GENERAL FUND REVENUE, NEVADA SCHOOLS:	<u><u>\$2,925,560,230</u></u>	100.0%
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Source: NRS 387.303 Report - FY 2012; Statewide Combined General & Special Education Funds

The Nevada Plan - An Example

To better understand how the Nevada Plan model works, a step-by-step summary is provided below. The bolded number(s) at the end of each step correspond to an example of a hypothetical school district that is presented on the following page.

1. **Enrollment** – The count of pupils for apportionment purposes is the number of children enrolled in grades 1 through 12 on the last day of the first school month in regular or special education programs. Children enrolled in kindergarten, as well as disabled or gifted and talented children under the age of five, are counted (weighted) as six-tenths of a pupil. In instances of declining enrollment, the hold harmless provision (the higher of the current or previous year’s enrollment) is used. If the decline in enrollment is 5 percent or more from the previous year, the hold harmless provision allows the higher of the current or the previous two years’ enrollment to be used **(1)**.
2. **Guaranteed Basic Support** – The weighted enrollment total is multiplied by the legislatively approved per-pupil support guarantee for the school district for that school year to determine the school district’s guaranteed basic support **(2 and 3)**.
3. **Special Education Allocation** – The number of state-supported special education units allocated to the district that year is multiplied by the amount per program unit established by the Legislature for that school year, and the product is added to guaranteed basic support to obtain the school district’s total guaranteed support. This sum is the amount of total funding guaranteed to the school district from a combination of state and local funds **(4 and 5)**.
4. **“Inside” Local Resources** – Revenue received by the school district from the 2.60 percent Local School Support Tax (LSST) and one-third of the proceeds from the 75-cent ad valorem (property and mining) tax is deducted from the school district’s total guaranteed basic support to determine the amount of state aid the district will receive. If local revenues from these two sources are less than projected, state aid is increased to cover the total basic support guarantee. If these two local revenues come in higher than projected, state aid is reduced. The difference between total guaranteed support and local resources is state aid, which is funded through the Distributive School Account (DSA) **(6 and 7)**.
5. **Other State-Funded Programs** – An amount for any specific programs funded by the Legislature through the DSA, such as Adult High School Diploma funding, is added to the school district’s total state aid to determine the total amount of revenue the school district will receive from the DSA **(8 and 9)**.
6. **“Outside” Local and Federal Resources** – Sources of revenue “outside” the funding formula, such as two-thirds of the proceeds from the 75-cent ad valorem (property and mining) tax and unrestricted federal funding, are added to the total guaranteed support and the amount provided for other legislatively-approved programs to determine the school district’s total available resources **(10 through 16)**.

The Nevada Plan - An Example (continued)

The following example illustrates the guaranteed funding process based on the revenue of a hypothetical school district and, in addition, shows other revenue outside of the guarantee, making up the total resources included in a school district's operating budget.

Basic Support Guarantee		
1	Number of Pupils (Weighted Apportionment Enrollment*)	8,000
2	x Basic Support Per Pupil	<u>\$ 4,700</u>
3	= Guaranteed Basic Support	\$ 37,600,000
4	+ Special Education Allocation (40 units @ \$32,000 per unit)	<u>\$ 1,280,000</u>
5	= Total Guaranteed Support	\$ 38,880,000
	- Local Resources	
6	2.60-cent Local School Support (sales) Tax** 1/3 of the proceeds from 75-cent property tax rate	(\$ 15,540,000) <u>(\$ 4,600,000)</u>
7	= State Responsibility	\$ 18,740,000
8	+ Other State Programs funded through the DSA (e.g., Adult High School Diploma Funding)	<u>\$ 35,000</u>
9	= Total Revenue from Distributive School Account (DSA)	\$ 18,775,000
Resources in Addition to Basic Support		
10	2/3 of the proceeds from 75-cent property tax rate	\$ 9,200,000
11	Government Services Tax (GST)	\$ 1,700,000
12	Federal Revenues (Unrestricted)	\$ 150,000
13	Miscellaneous Revenues	\$ 10,000
14	Opening Fund Balance	<u>\$ 2,000,000</u>
15	Total Resources in Addition to Basic Support	<u>\$ 13,060,000</u>
16	Total Resources Available (Add lines 5, 8, and 15)	\$ 51,975,000

*Weighted apportionment enrollment includes six-tenths of the count of pupils enrolled in kindergarten, six-tenths of the count of 3- and 4-year-olds who are receiving special education, a full count of pupils enrolled in grades 1 through 12, and a full count of disabled minors age 5 and over receiving special education (NRS 387.1233)

**The Local School Support Tax (LSST) rate of 2.60 percent reverts back to 2.25 percent on July 1, 2013 (NRS 374.111).