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# Office of the Governor

January 10, 2017

The Honorable Brian Sandoval
Governor of Nevada
101 North Carson Street
Carson City, Nevada 89701

Dear Governor Sandoval:

The Spending and Government Efficiency (SAGE) Commission for the System of K-12 Public Education is pleased to provide you with its final report, pursuant to the requirements of Assembly Bill 421 of the 78th Regular Session (Chapter 414, Statutes of Nevada, 2015). The accompanying final report provides all of the recommendations approved by the Commissioners as well as background and other information. The Commission believes these recommendations can lead to improved efficiencies, cost reduction, and improvement in the educational delivery system in Nevada's K-12 public schools.

From December 2015 to December 2016, the SAGE Commission met quarterly during all day sessions to discuss topics regarding performance management, return on investment, instructional technology in schools, capital construction and maintenance costs, charter school facilities, and a host of additional topics around increasing productivity and efficiency in the K-12 education delivery system. During each meeting, Commissioners reviewed a briefing paper from the Guinn Center for Policy Priorities and heard testimony from Nevada's school districts, charter school representatives, business and labor organizations, and other stakeholders.

On behalf of all the Commissioners, thank you for the opportunity to serve the people of Nevada in this important endeavor.

Respectfully submitted,

*Glenn Christenson*

Chair
Spending & Government Efficiency Commission

# SAGE COMMISSION FINAL REPORT

# JANUARY 2017

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## Executive Summary

In the 78th Nevada Legislative Session, the Legislature passed Assembly Bill 421 (Chapter 414, Nevada Revised Statutes), which established the Spending and Government Efficiency (SAGE) Commission for the System of K-12 Public Education. The purpose of the SAGE Commission is to assess best practices in education and the fiscal management of education funding in the State. The SAGE commission members are "required to make periodic recommendations to the Governor identifying: (1) areas in which the public costs of public education may be reduced; (2) areas in which increased efficiencies in public education may be found; and (3) any means by which public education may be improved."

In 2016, SAGE Commission members met quarterly, heard presentations from a wide range of constituents on various topics, and from these presentations developed the accompanying set of recommendations designed to reduce costs, improve efficiencies, and improve the delivery of educational services to Nevada's public K-12 students. Recommendations are summarized in the pages that follow.

Regarding the topic of **Performance Management and Ensuring a Return on Investment**, the Commission recommends as follows:

1. The Legislature should require that school districts regularly conduct a performance management review of all instructional and other school-based programs. The review should occur at least every three years and should link programs to student achievement so as to ensure a return on investment for programs purchased by districts and/or schools.
2. The State and/or school districts should create a clearly delineate of centralized (or district) decision making vs. school (or facility) decision-making authority. The objective would be to push as much decision-making authority to the local school level as is feasible and responsible. Consideration should be given to decision makers' experience and training.

Regarding **Instructional Technology in the Schools**, the Commission recommends as follows:

3. Any major rollout of curriculum or technology should be done with a planned methodology to include measurable thresholds of success in order to improve the likelihood of desired results.
4. The State should continue to support the Nevada Ready 21 strategy and provide funding for the purchase of devices for a phased program to ensure 1:1 technology and "digital citizenship" in middle school and high school, with requirements for standards as required by NRS 388.795 (with collaboration at the local level). In addition, the State should lead the development of a plan for adding technology at the elementary school level.
5. The State and districts must assess, through quantifiable measurements, the instructional results of technology in the classroom to determine the most effective devices and the appropriate training materials in order to set district/statewide policies.

6. The State and districts should collaborate on an analysis of cost-savings in other areas that can be realized by moving to 1:1 technology.

7. As part of its strategic plan, the Commission on Educational Technology should conduct an assessment of both administrative and instructional technology capabilities at the district level, including a needs assessment, total investment required, and replacement costs.

8. The state, districts, and charter schools should explore statewide procurement agreements for hardware and software technology purchases.

9. Districts should review the possible cost savings of using local government building inspectors and plan review processes in lieu of having their own in-house inspectors.

Regarding **Capital Construction and Maintenance Costs**, the Commission recommends as follows:

10. The Legislature should consider providing funding for the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335) or establishing a new statewide funding vehicle.

11. The State should identify new funding for deferred maintenance and other major maintenance items to provide for a matching grant program to aid districts in meeting a total set-aside of 3 percent of Current Replacement Value for a uniform maintenance standard.

12. The Legislature should consider reforms to existing tax policies as a way of increasing the potential revenues available to school districts, particularly small districts, for capital expenditures, including:

    a. Increasing the population threshold of the residential construction tax to 100,000.

    b. Making the Governmental Services Tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.

    c. Revisiting AB46 of the 2013 Legislative Session and extending the deadline for action.

13. The Legislature should require local government jurisdictions to collect impact fees to be paid directly to school districts when new development occurs and will impact schools.

14. The Legislature should require the Governor's Office of Economic Development to consider a formal assessment of school capital needs prior to the approval of development incentives, including an impact study and a funding plan that either uses an existing funding mechanism or proposes a new funding mechanism to address future facility needs.

15. The Legislature should require each school district to submit a balanced budget and long-term capital strategic plan and update it prior to each regular legislative session.

16. The Legislature should review the value and/or need of the Permanent School Fund to determine whether the cap of a maximum $40 million in guaranteed bonds can or should be increased in statute.

17. The Legislature should consider expanding the statutory definition of capital expenditures and what can be purchased using sources of capital financing.

Regarding **Cost Containment Measures**, the Commission recommends as follows:

18. The State should consider removing the “sunset” provision from the construction manager at risk (CMAR) process (NRS 338.165), which expires on June 30, 2017, and should also consider removing the restrictions for smaller districts which limit them to two CMAR projects per year (NRS 338.169).

19. Districts should turn first to public lands for the acquisition of land for school sites, encourage jurisdictions to establish a committee of relevant parties (e.g., school district officials, developers, county and city agencies) to identify the school site, and require remediation as part of the negotiations process, and recommend legislation to conduct studies of impact fees.

20. The Legislature should commission an independent operational audit to explore opportunities for value engineering to include lifespan of school facilities, the usefulness and possibilities of shared facilities/campus sites, a comparison of construction costs, and inclusion of deferred maintenance.

21. The Legislature should engage a qualified third party representative to conduct a periodic external operational audit of policies, practices and procedures of the construction services and maintenance functions at the districts including scope of work, as well as:

    a. Evaluation of a single labor rate versus multiple labor rates

    b. Evaluation of “low bid” versus “most responsible” bid

    c. Consideration of the feasibility of bidding multiple school projects in one package

    d. Consideration of developing “flex space” for projected future growth with reserved requirements

    e. Consideration of which method for equipment maintenance has the best return on investment

    f. Determination of the optimal estimated useful life of a school

    g. Consideration of inclusion of contractors in the building development process

22. The Legislature should consider the feasibility of having the State take on a significant role to assist upon request by small school districts (defined as anything outside of Clark and Washoe County) with design and project management.

23. The Legislature should encourage school districts to explore creating incentives for construction contractors to retain some share of realized savings if they finish under budget or finish ahead of schedule.

24. The Legislature should develop guidelines for district review panels for the evaluation of responses to requests for proposals for construction services and the extent to which outside architects, engineers, and contractors should be used in the selection process. Emphasis should be placed on including participants with private sector construction experience and those familiar with making return on investment decisions.

25. The Legislature should require that the gift limitations that apply to legislators also apply to employees serving in positions related to the construction of facilities in school districts as well as anyone purchasing goods or services for the districts.

26. The Legislature should require that the payback period for developers and/or utilities to refund amounts advanced by the districts for "off sites" on their parcels be increased from five to up to 20 years.

27. The Legislature should require the districts to review various measures to lower costs of construction and maintenance functions to include moving more schools to 12-month schedules or double sessions and consider a minimum number of schools on 12-month schedules or double sessions to eliminate or extend the need for new schools.

Regarding **Charter School Facilities**, the Commission recommends as follows:

28. The Legislature should increase the appropriation for the Account of Charter Schools revolving loan fund and consider offering a matching grant program from existing state funds that seeks to address educational inequities for high performing charters that serve at-risk students.

29. If the Legislature accepts the Commission's recommendations concerning the Account for Charter Schools revolving loans fund and the matching grant program, then the Legislature should consider allowing those funds to be used for leasing costs, as well as the construction and purchase of school facilities.

30. The SAGE Commission recommends that the Nevada Legislature require school districts in Washoe County and Clark County to set aside 3 percent of any new bond proceeds (as of June 2017) for charter schools located within the district for the purpose of acquiring, leasing, or renovating facilities. Eligible charter schools are those run by charter management organizations. They would also have to have at least a 4 star Nevada State Performance Framework ranking or serve a student population that is at least 50 percent English Language Learner (ELL) **or** Free and Reduced Lunch (FRL), **and** 10 percent special education. Those schools that meet those requirements would be eligible to receive $350 per student on all future bond proceeds.

Regarding **Professional/Expert Management of Centralized District Services**, the Commission recommends as follows:

31. The 2017 Nevada Legislature fund a consultant on behalf of school districts (Clark and Washoe Counties): The purpose of the consultant is to develop a plan with the objectives to lower cost, improve services, and increase accountability in the essential business service areas of transportation, facilities maintenance, food services, information technology, or any other area that may realize the objectives listed. The plan should include input from within the respective districts as well as plans from external experts to manage those areas. All savings realized will be retained by respective districts for instructional budgets. The recommendation is limited to the outsourcing of management

functions; non-management services employees should remain employees of their respective school districts.

Regarding efforts to **Increase High-quality Teachers**, the Commission recommends as follows:

32. The Nevada State Legislature should consider requiring school districts to develop measurable objectives for and report on an evaluation of the impact of the new salary schedules, teacher retention and teacher incentive programs against the measurable objectives. The report shall be posted to the district website and annually presented to the State Board of Education.
33. The 2017 Nevada State Legislature continue funding the Teach Nevada Scholarship and Incentive Fund program and approve the appropriation early in the 2017 session so these funds can be advertised during spring recruitment.
34. The Nevada State Legislature and Nevada Department of Education revise the target of current incentive programs to the following categories of teachers: (1) high-quality teachers (as demonstrated by the NEPF "highly effective" ratings) to teach in the State's under-performing, high poverty schools, (2) Special Education teachers, (3) and math and science teachers.

Regarding Efforts to **Control Personnel Costs**, the Commission recommends as follows:

35. The Nevada State Legislature conduct a statewide assessment of both the State's health care benefit programs for teaching and support professionals, and of the State's worker's compensation program for teaching and support (administrative) professionals. The scope of the study could include:

    a. An assessment of the school district's current programs, current pricing, coverage levels by district, provider network and case management, size of premiums, losses, etc.

    b. Identification of opportunities to reduce current costs or contain future costs through alternative health care coverage

    c. Identification of possible benefit models (e.g., joining a health insurance consortium, state health insurance plan, etc.) and the fiscal savings of implementing different benefit models

    d. Feasibility analysis and potential fiscal benefit of restructuring the K-12 health care benefits system, and/or having rural districts "pool" health care benefit programs.

# Nevada SAGE Commission FINAL REPORT

## Introduction

In the 78th Nevada Legislative Session, the Legislature passed Assembly Bill 421 (Chapter 414, Nevada Revised Statutes), which established the Spending and Government Efficiency (SAGE) Commission for the System of K-12 Public Education. The purpose of the SAGE Commission is to assess best practices in education and the fiscal management of education funding in the State. The SAGE commission members are "required to make periodic recommendations to the Governor identifying: (1) areas in which the public costs of public education may be reduced; (2) areas in which increased efficiencies in public education may be found; and (3) any means by which public education may be improved."[1]

Members of the SAGE Commission were appointed by Governor Brian Sandoval and include representatives of the education and business community. Commissioners include:

- Courtney Cardinal, President/General Manager, Casino Fandango: Business Management/Operations
- Glenn Christenson, Managing Director, Velstand Investments Ltd., Board Member, Stewart Information Services: Business Management/Education
- Maria Gatti, Executive Director, Philanthropy & Commercial Engagement, MGM: Economic Development
- John Guedry, CEO, Bank of Nevada: Business Management/Banking and Finance
- Kathy Harney, Retired CCSD Assistant Superintendent for Community Relations: K-12 Education
- Dr. Beverly Mathis, Public Education Foundation: Education Policy/School Operations
- Matt McCarty, General Manager, Town-Place Suites by Marriott, Elko: Business Management
- Samantha Morris, Small Business Owner, B & B Fence: Small Business, Parent
- Bill Noonan, Senior Vice President, Boyd Gaming: Industry and Government Affairs
- Reverend Dr. Marta Poling-Goldenne, President, Nevadans for the Common Good: Non-profit Management
- Sylvia Villalva, Retired Educator: K-12 Education

The SAGE Commission met quarterly during all day meetings from December 2015 to December 2016 and discussed previously agreed upon topics at each meeting:

February 2016: Performance management, instructional technology, and capital construction and maintenance costs of public K-12 school facilities

May 2016: Capital construction and maintenance of school facilities, collective bargaining in Nevada, Nevada K-12 finance, and human resource cost drivers (i.e., salaries and benefits)

August 2016: Contracted services, human resource cost drivers (i.e., salaries, benefits), and compensation and evaluation systems

November 2016: Compensation and evaluation systems

The Kenny Guinn Center for Policy Priorities, a nonprofit research and policy analysis center, provided a policy report on the designated topic prior to each meeting. These policy reports provided research and background information and policy recommendations. The recommendations in this report are the compilation of recommendations agreed upon by SAGE Commission members over the course of the quarterly meetings.

In the pages that follow, we summarize the recommendations put forth by the SAGE Commission members. To the extent possible, background information on the specific recommendation is provided.

Throughout the course of the SAGE Commission meetings, Commissioners noted the ongoing work of the Advisory Committee to Develop a Plan to Reorganize Clark County School District (Assembly Bill 394). Subsequently, the Commissioners concluded that although a number of the recommendations proposed over the course of the meetings warrant consideration, they did not want to pre-empt the implementation of the plan to reorganize CCSD and decided not to take up for further deliberation.

# Recommendations

## Performance Management and Ensuring a Return on Investment

Regarding **Performance Management and Ensuring a Return on Investment** ("every dollar counts"), the Commission has the following recommendations:

<u>Recommendation 1</u>: The Legislature should require that school districts regularly conduct a performance management review of all instructional and other school-based programs. The review should occur every three years and should link programs to student achievement to ensure a return on investment for programs purchased by districts and/or schools.

*Background:* For the past several years, Clark County School District (CCSD) has been implementing a program of "Ensuring Every Dollar Counts." Working with business leaders in southern Nevada, the Superintendent established an Advisory Group whose main task "is to create a focus on making sound use of existing dollars by designing tools to evaluate departments, programs and schools." Additionally, as part of the Clark County School District Reorganization (AB 394), the Community Implementation Council, working with CCSD, is undertaking an extensive review of its management systems. School districts around the Silver State could benefit from a similar sort of comprehensive review.

<u>Recommendation 2</u>: The State and/or school districts should create a clear delineation of centralized (or district) decision making vs. school (or facility) decision-making authority. The objective would be to push

as much decision-making authority to the local school level as is feasible and responsible. Consideration should be given to decision makers' experience and training.

## Instructional Technology in the Schools

Regarding **Instructional Technology in the Schools**, the Commission has the following recommendations:

Recommendation 3: Any major rollout of curriculum or technology should be done with a planned methodology to include quantifiable metrics of success to improve the likelihood of desired results.

Recommendation 4: The State should continue to support the Nevada Ready 21 strategy and provide funding for the purchase of devices for a phased program to ensure 1:1 technology and "digital citizenship" in middle school and high school, with requirements for standards as required by NRS 388.795 (with collaboration at the local level). In addition, the state should lead the development of a plan for adding technology at the elementary school level.

Recommendation 5: The State and school districts must assess, through quantifiable measurements, the instructional results of technology in the classroom to determine the most effective devices and the appropriate training materials in order to set district/statewide policies.

Recommendation 6: The State and school districts should collaborate on an analysis of cost-savings in other areas that can be realized by moving to 1:1 technology.

Recommendation 7: As part of its State plan, the Commission on Educational Technology should assess both administrative and instructional technology capabilities at the district level, including a needs assessment, total investment required, and replacement costs.

Recommendation 8: The State and districts/charter schools should explore statewide procurement agreements for technology purchases.

Recommendation 9: Districts should review the possible cost savings of using local government building inspectors and plan review processes in lieu of having their own in-house inspectors.

## Capital Construction and Maintenance Costs

Regarding to **Capital Construction and Maintenance Costs**, the Commission recommends as follows:

Recommendation 10: The Legislature should consider providing funding for the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335) or establishing a new statewide funding vehicle.

*Background*: Nevada Revised Statutes (NRS) 374A levies a sales tax of 0.125 percent for school districts that have applied for a grant from the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335). This Fund was established in 1999 (with a $16 million appropriation) for school districts with "emergency conditions" but is not currently funded. White Pine and Lincoln County School Districts applied for the grant in 2000 and 2005, but White Pine County is the only school district that receives this 0.125 percent sales tax. In 2000, the Nevada Planning Commission for New Construction and Repair of Schools offered the Commission the following recommendations, which were proposed during the 2001 71st Legislative Session: (1) establish a revolving loan fund to help school districts with maintenance/repair needs; (2) allocate money in the State's General Fund for state school aid to address school construction and/or significant maintenance and repair costs.

Recommendation 11: The State should identify new funding for deferred maintenance and other major maintenance items to provide for a matching grant program to aid districts in meeting a total set-aside of 3 percent of Current Replacement Value for a uniform maintenance standard.

*Background*: Encouraging school districts to set aside sufficient maintenance funds is critical given that regular maintenance can lower operating and building expenses over time. School district officials have noted that when preventative maintenance is not done, this can impact the life span of facilities and equipment. As Clark County School District officials have noted, "deferring maintenance costs more in the long run by forcing the district to replace machinery and renovate schools sooner."[2] School district officials estimate that for every dollar of deferred maintenance, districts will end up paying $4 in capital costs over time.[3]

Other states require funds to be set aside for maintenance. For example, California requires school districts that received state bond funds to set aside two percent of General Funds annually for routine restricted maintenance (CA Education Code 17014). Additionally, California has a State Facilities Program (SFP) which provides a per student grant to participating school districts for new construction and modernization. School districts that receive a grant are required to set aside 3 percent of their annual budget for routine maintenance.[4] Ohio requires school districts to set aside an amount equal to 3 percent of formula funding or 3 percent of prior year base revenue for acquisition, replacement, enhancement and maintenance or repair of permanent improvements.[5]

Many districts in Nevada are currently using a portion of their General Funds to fund maintenance needs. However, apart from Esmeralda County School District, school districts in the Silver State are not meeting the industry standard (3 percent of current replacement value).

Districts in Nevada could be required to set aside a specific percentage of General Funds and/or bond funds in the Fund for Extraordinary Maintenance. Should districts be required to set aside funds for deferred maintenance, the State would have to ensure that districts have adequate funding to meet both facilities needs and operational and instructional expenses. Alternatively, the program could be established as an incentive whereby the State would match up to a certain amount of local funds.

Recommendation 12: The Legislature should consider reforms to existing tax policies as a way of increasing the potential revenues available to school districts, particularly small districts, for capital expenditures, including:

- Increasing the population threshold of the residential construction tax to 100,000.
- Making the Governmental Services Tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.

- Revisiting AB46 of the 2013 Legislative Session and extending the deadline for action.

*Background*: There are number of reforms to existing tax policies that the State should consider as a way of increasing the potential revenues available to school districts, particularly small school districts. At the request of a school district, county commissioners in jurisdictions with a population of less than 55,000 can impose a tax on residential construction of up to $1,600 per unit (NRS 387.331). In Fiscal Year (FY) 2015, five school districts received this funding for a total of $579,982. There are several school districts that receive this funding with a population that is close to 55,000 based on 2015 estimates by the State Demographer: Douglas (population 48,347); Lyon (population 53,652), Nye (population 45,619).[6] There are two additional counties that have just over 55,000 residents and do not receive this funding; Carson City and Elko. The SAGE Commission recommends that the Legislature consider increasing the population threshold to 100,000 so that school districts do not lose access to this tax funding if their population exceeds 55,000. This policy reform would then provide Carson City and Elko with access to these funds. On several occasions, the Legislature has increased population limits on similar tax measures following the national census.

Voter-approved ad valorem taxes are the largest funding source for school capital needs, generating $400.9 million in FY 2015. This includes taxes from both property and net proceeds of minerals. Voters can authorize either general obligation bonds or pay-as-you-go taxes (NRS 387.3285). Districts that have general obligation bonds also gain access to a portion of the Governmental Services Tax, which may be used for capital projects (NRS 428.181). This allocation is in addition to Governmental Services Tax revenue provided to all districts for operation expenses.[1] Statewide, the Governmental Services Tax generated $33.0 million in FY 2015 (Table 3, Column F). Since not all school districts have been successful in getting voter approval, the State could consider making the Governmental Services Tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.

In 2013, the Nevada Legislature passed Assembly Bill 46 which allowed a board of county commissioners to impose a 0.25 percent sales tax by a two-thirds vote (NRS 377C.100). This tax was not implemented, however, because the Washoe County Commission failed to act by the deadline of January 1, 2014. The Legislature could revisit this provision and extend the deadline for action.

<u>Recommendation 13</u>: The Legislature should require local government jurisdictions to collect impact fees to be paid directly to school districts when new development occurs and will impact schools.

*Background*: Several states require that impact fees are paid to local governments and/or school districts to help pay for construction of new schools. Currently, cities and counties in Nevada operate under a 1989 state law that authorizes them to collect impact fees from developers. However, this law does not allow jurisdictions to collect impact fees for libraries, municipal buildings, parks, or *schools*. In 2006, the Clark County Commission commissioned a study and explored the issue of imposing impact fees to fund new school construction. Nevada state law indicates that school districts can seek reimbursement from local

[1] Here we note that the allocation of the Governmental Services Tax is affected by whether a school district has general obligation bonds. Specifically, if a district that currently does not have general obligation debt later received voter approval and issued debt, it is likely that some portion of their general fund Governmental Services Tax would be reduced.

jurisdictions for costs incurred (NRS 278B.240) when they are asked to construct "off-site facilities,"[2] but there is no indication that school districts have ever exercised this option. Recently, the Reno City Council has discussed the issue of imposing impact fees for school construction, recognizing that projected new developments will significantly impact the capacity at existing school facilities.[3]

Recommendation 14: The Legislature should require the Governor's Office of Economic Development to consider a formal assessment of school capital needs prior to the approval of development incentives, including an impact study and a funding plan that either uses an existing funding mechanism or proposes a new funding mechanism to address future facility needs.

*Background*: Similarly, school facilities planning should be an integral part of the development incentive approval process. Under current law, the Governor's Office of Economic Development (GOED) has the authority to approve abatements of sales, business, and property taxes for new and expanding businesses for 10 to 20 years (NRS Chapter 360). Since property taxes are the principal source of funds for school facility needs, these abatements can have a substantial impact on the ability of school districts to respond to student population growth that can result from new and expanding businesses. For example, the Tesla Motors project approved in September 2014 will bring an estimated 6,500 employees to Storey County, which could have a significant impact on school enrollment in the surrounding school districts. The SAGE Commission recommends that the Legislature require GOED to consider a formal assessment of school capital needs prior to the approval of development incentives. Working with the impacted school districts, GOED should conduct a school facilities impact study and develop a funding plan that either uses an existing funding mechanism or proposes a new funding mechanism to address future facility needs.

Recommendation 15: The Legislature should require each school district to submit a long-term capital strategic plan and update it prior to each regular legislative session.

*Background*: Every local government in Nevada is required to develop and submit a five-year capital improvement plan and submit it to the State Department of Taxation, the county Debt Management Commission, and the Legislative Counsel Bureau (NRS 354.5945). However, these plans do not fully articulate unfunded capital needs. All school districts in Nevada have some level of unfunded capital needs. CCSD has a strategic capital plan that projects the district's potential funding over a 10-year period and how those funds will be spent (e.g., new schools, modernization, technology infrastructure).[7] The plan is vetted by CCSD's Bond Oversight Committee and recommendations are made by the committee; the strategic plan is then taken to the CCSD Board of Trustees for final approval. Washoe County School District has developed a "Strategic Blueprint" for the district's overcrowding and repair needs over the

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[2] NRS 278B.240 reads: "If a school district is required by a local government to construct or dedicate, or both, a portion of the off-site facilities for which impact fees are imposed, the local government shall, upon the request of the school district, reimburse or enter into an agreement to reimburse the school district for the cost of the off-site facilities constructed or dedicated, or both, minus the cost of the off-site facilities immediately adjacent to or providing connection to the school development which would be required by local ordinance in the absence of an ordinance authorizing impact fees."

[3] One developer in Nevada offered to contribute $200,000 to offset the impact of the new development on existing school facilities. This figure amounted to $200 per student, which is significantly lower than the $17,000 (on average) that it costs to seat a child in a new school.

next decade; this plan was presented to the Washoe County Public Schools Overcrowding and Repair Needs Committee in November 2015.

The SAGE Commission recommends that the Legislature require each school district to submit a long-term capital strategic plan and update it prior to each Legislative Session. As part of the strategic planning process, school district officials should collaborate with the State and financial experts to explore different funding options and develop the long-term school facilities capital strategic plan.

Recommendation 16: The Legislature should review the value and/or need of the Permanent School Fund to determine whether the cap of a maximum $40 million in guaranteed bonds can or should be increased in statute.

*Background*: The most significant cost of borrowing is the amount of interest that will need to be paid. For each issuance, there are multiple bonds sold at varying issuance rates that mature at different times. One of the most significant factors influencing the interest rate is a school district's bond rating. To help enhance their bond ratings, school districts can use the State Permanent School Fund as a guarantee (NRS 387.513 et seq.).

The State Permanent School Fund was established by the Nevada Legislature in the late 1800s (Nevada Constitution, Article 11, Section 3), which requires that the Fund's monies "are hereby pledged for educational purposes and the money therefrom must not be transferred to other funds for other uses." The Permanent School Fund is funded through the collection of fines, as well as land and property given to the State for educational purposes. The interest earnings of Nevada's Permanent School Fund are placed in the State Distributive School Account, which is distributed among Nevada school districts and charter schools. As of December 31, 2014, the Permanent School Fund was valued at $331 million; however, $328 million of the total amount is the principal, which "cannot be spent" and "must remain in the fund in perpetuity under the State Constitution." In FY 2014 and FY 2015, $1 million in Permanent School Fund interest was transferred to the Distributive State Account.

A school district can have a maximum of $40 million in guaranteed bonds outstanding at one time. This cap on this was last increased in 2007 (Statutes of Nevada 2007, Chapter 291). A total of 11 school districts currently use this guarantee. A few school districts (Carson City, Douglas, Lyon, and Nye) are close to the cap. Since the cap has not been reviewed for nearly 10 years, the SAGE Commission recommends that the Legislature review the value and/or need of the Permanent School Fund to determine whether the cap can or should be increased in statute.

Recommendation 17: The Legislature should consider expanding the statutory definition of capital expenditures and what can be purchased using sources of capital financing.

*Background*: Given the salience of technology in the classroom, it is critical that school districts can treat technology infrastructure and hardware (portables devices, computer tablets) as capital expenditures.

## Construction Cost Containment

Regarding **Construction Cost Containment,** the SAGE Commissioners offer the following recommendations:

Recommendation 18: The State should consider removing the "sunset" provision from the construction manager at risk (CMAR) process (NRS 338.165), which expires on June 30, 2017, and should also consider removing the restrictions for smaller districts which limit them to two CMAR projects per year (NRS 338.169).

*Background*: Nevada law currently authorizes schools to use one of three delivery methods for school construction: design-bid-build, construction manager at risk (CMAR), and design build. Each method has an impact on cost and level of risk. The Legislature authorized school districts and other public bodies to use the Construction Manager at Risk (CMAR) delivery method in 2007 (NRS 338.165 et seq). Under this option, the CMAR guarantees completion of the project for a negotiated price and holds the risk of construction performance. With a CMAR, a school district enters two separate contracts. The first contract is for preconstruction services and is awarded through a competitive process. These services include determining whether scheduling or constructability problems exist that would delay the construction of the project, estimating the cost of the labor and material for the project, and assisting the public body in determining whether the project can be constructed within the district's budget (NRS 338.169). After the design is complete, a school district may enter a second contract with the CMAR for construction of the project (NRS 338.1696). This contract is based on a guaranteed maximum price, fixed price, or fixed price plus reimbursement for certain costs. If the school district is unable to reach an agreement with the CMAR, it can instead go out to bid through the traditional process.

This existing law faces several challenges. First, the option to use CMAR will expire on June 30, 2017 unless further Legislative action is taken to extend it (NRS 338.165 et seq). Second, the law limits small school districts with a population of less than 100,000 to two CMAR projects per year (NRS 338.169). School district representatives support new legislation that would extend the ability to use CMAR.

The CMAR delivery method has significant advantages. Overall, there is broad support for legislation that would extend the ability to use CMAR. The key advantages are as follows: (1) the CMAR establishes a cooperative relationship between the architect and the contractor early in the construction process; (2) it can limit the adversarial change order process, and as a result can lead to lower costs and expedited construction; (3) it provides more certainty that the project will be completed within budget; (4) it helps streamline scheduling; and (5) with better information on costs and construction methods over time, it will give the districts more control over the design process.[8]

Over the years, CMAR has become increasingly popular for many of Nevada's school districts. CCSD began using the CMAR process for new construction projects in 2015. The Washoe County School District has successfully used this delivery method on 22 elementary school renovations and plans to use it for any new construction.[9] Additionally, small school districts such as Douglas County and White Pine County also use CMAR to control costs, eliminate change orders, and control costly per diem and transportation costs.

Recommendation 19: Districts should turn first to public lands for the acquisition of land for school sites; encourage jurisdictions to establish a committee of relevant parties (e.g., school district officials, developers, county and city agencies) to identify the school site; require remediation as part of the negotiations process; and recommend that the Legislature conduct studies of impact fees.

*Background*: The location for each school site can impact on total school construction costs. School districts must work with local jurisdictions and developers to find a suitable school site (NRS 278.346).[10] However, local governments do not consistently enforce the requirement that developers set aside land for future school sites. And, with few exceptions, school districts have had to pay market value for the land. SAGE Commission members noted that land could be secured by working with the Bureau of Land Management or the Parks and Recreation Department to find sites for schools.

The amount of infrastructure the school district must build also varies. In most cases, the school district must shoulder the cost of connecting to water, sewer, electrical, gas, and water lines, which increases the overall construction costs. In addition, the land set aside by a developer for a school district may be located on difficult terrain that was not suitable for homebuilding, thus requiring significant remediation. Building on a site with challenging geological issues can also increase costs when grading, retaining walls, and fencing is required. Relevant parties in the jurisdiction (e.g., school district officials, developers, county and city agencies) should consider establishing a formal policy whereby all parties meet and discuss site options (including school sites) as part of the negotiations process.

Recommendation 20: The Legislature should commission an independent operational audit to explore opportunities for value engineering to include lifespan of school facilities, the usefulness and possibilities of shared facilities, a comparison of construction costs, and inclusion of deferred maintenance.

*Background*: There are significant opportunities for value engineering in the construction of school facilities. Districts could utilize the value engineering process without compromising safety requirements and instructional needs.

Recommendation 21: The Legislature should engage a qualified third party representative to conduct a periodic external operational audit of policies, practices and procedures of the construction services and maintenance functions at the districts including scope of work, as well as:

a. Evaluation of a single labor rate versus multiple labor rates
b. Evaluation of "low bid" versus "most responsible" bid
c. Consideration of the feasibility of bidding multiple school projects in one package.
d. Consideration of developing "flex space" for projected future growth with reserved requirements
e. Consideration of which method for equipment maintenance has the best return on investment
f. Determination of the optimal estimated useful life of a school
g. Consideration of inclusion of contractors in the building development process.

Recommendation 22: The Legislature should consider the feasibility of having the State, upon request by small school districts (defined as anything outside of Clark and Washoe counties), take on a significant role to assist with design and project management.

*Background*: During the construction of a school facility, it could be advantageous for school districts to have a project manager that reports directly to the school district to ensure that the district's interests are always being represented. Both Clark County School District and Washoe County School District have permanent in-house project managers. It is more difficult, however, for small districts to employ project managers. One small district interviewed stated that it did not have sufficient funds to hire a project manager. Another small district indicated that it has shared a project manager with another local government entity.

To address the challenges of smaller districts, the SAGE Commission explored whether there might be benefits to having the State provide technical assistance to small school districts with design and project management. As an example, the State Board of Public Works currently provides design and project management services for capital projects at and across all state agencies and the Nevada System of Higher Education. This would ensure that all school districts could have access to professional project management services without having to dedicate limited resources to maintaining this expertise in-house.

Recommendation 23: The Legislature should encourage school districts to explore creating incentives for construction contractors to retain some share of realized savings if they finish under budget or finish ahead of schedule.

*Background*: Many large-scale construction projects are characterized by running over budget and behind schedule. To reduce costs, school districts may want to incentivize the building and construction team by allowing contractors to retain some portion of savings if they finish under budget of schedule.

Recommendation 24: The Legislature should develop guidelines for district review panels for the evaluation of responses to requests for proposals for construction services and the extent to which outside architects, engineers, and contractors should be used in the selection process. Emphasis should be placed on including participants with private sector construction experience and those familiar with making return on investment decisions.

*Background*: School districts have review panels, which evaluate responses to requests for proposals for construction services. The professional composition and subject matter expertise of review panel membership varies. The Nevada State Legislature should develop guidelines for the composition of these panels to ensure that review panel members have expertise in the construction of facilities (e.g., architecture, engineering, construction) and in the private sector.

Recommendation 25: The Legislature should require that the gift limitations that apply to legislators also apply to employees serving in positions related to the construction of facilities in school districts as well as anyone purchasing goods or services for the districts.

Recommendation 26: The Legislature should require that the payback period for developers and/or utilities to refund amounts advanced by the districts for "off sites" on their parcels be increased from five to up to 20 years. By extending the payback period, this measure would provide school districts additional financial flexibility.

Recommendation 27: The Legislature should require the districts to review various measures to lower costs of construction and maintenance functions to include moving more schools to 12-month schedules or double sessions and consider a minimum number of schools on 12-month schedules or double sessions to eliminate or extend the need for new schools.

## Charter School Facilities

Regarding **Charter School Facilities**, the Commission recommends as follows:

Recommendation 28: The Legislature should increase the appropriation for the Account of Charter Schools revolving loan fund and consider offering a matching grant program from existing state funds that seeks to address educational inequities for high performing charters that serve at-risk students.

Recommendation 29: If the Legislature accepts the Commission's recommendations concerning the Account for Charter Schools revolving loans funds and the matching grant program, then the Legislature should consider allowing those funds to be used for leasing costs, as well as the construction and purchase of school facilities.

*Background*: Charter schools lack access to facilities funds (generated by property taxes) received by school districts. The average capital revenue sources in Fiscal Year 2015 was $1,288 per pupil. Charter schools, however, do not have access to any of these funds. Consequently, charter schools must use their operations funding to meet these needs. The lack of access to facilities funds leads to significant funding disparities between school districts and charter schools. The largest funding source available to school districts for capital needs is ad valorem taxes, which are used to repay bonds.

In lieu of direct funding for facilities, charter schools have access to the State-sponsored Account for Charter Schools, a revolving loan fund (NRS 386.576), which was funded for the first time in 2013 with a one-time State appropriation of $750,000. This funding must be used to make loans at or below market rate to charter schools for costs incurred in preparing a charter school to commence its first year of operations or to improve a charter school that has been in operation (NRS 386.577).[4] The maximum loan amount is the lesser of $500 per pupil or $200,000 (NRS 386.577). Repayment must be completed in three years out of State funding provided through the Distributive School Account (NAC 386.445). Many charter

[4] A similar model is California's Charter School Facilities Program (CSFP), established in 2002, which provides revenue for the construction or rehabilitation of charter school facilities. The CSFP provides half of what the charter school needs and requires that the school seek a match. CSFP also offers low interest loans. CSFP was initially funded with revenue from a state, voter-approved general obligation bond issue. Since 2002, the program has been funded with $900 million earmarked for charter school facilities.

school officials expressed concern that the maximum loan amount of $200,000 is not sufficient to address its facility needs.[11]

Since the primary facilities cost for many charter schools is lease costs, any future facility program should make leasing costs an allowable use of funds. Another challenge of this program is that State funding is provided on a reimbursement basis, which means that the charter school must obtain an initial source of funding from sources such as credit cards, personal loans, or a high interest commercial loan.[12]

Recommendation 30: The SAGE Commission recommends that the Nevada Legislature require school districts in Washoe County and Clark County to set aside 3 percent of any new bond proceeds (as of June 2017) for charter schools located within the district for the purpose of acquiring, leasing, or renovating facilities. Eligible charter schools are those run by charter management organizations. They would also have to have at least a 4 star Nevada State Performance Framework ranking or serve a student population that is at least 50 percent English Language Learner (ELL) **or** Free and Reduced Lunch (FRL), **and** 10 percent special education. Those schools that meet those requirements would be eligible to receive $350 per student on all future bond proceeds.

*Background*: Nevada's charter schools are state-funded public schools of choice operated by independent entities with their own governing boards. They are held to the same academic standards as traditional public schools, but have more flexibility and control over curriculum, staffing, budget, and operations. As of FY 2015, Nevada's charter schools served 28,432 students, which is 6.2 percent of Nevada's total public school enrollment.

Charter schools have historically received less State/Federal categorical funds than school districts. While charter schools are eligible to receive funding from most state categorical programs, they are not eligible for Class Size Reduction funds, the largest categorical program (amounting to $306.3 million over 2015-2017 biennium). Charter schools can receive Federal categorical funds such as Title I, but per pupil funding is lower than for school districts. Charter schools lack access to facilities funds (generated by property taxes) received by school districts (Table 1). The average capital revenue sources in FY 2014 was $1,216 per pupil. Charter schools, however, do not have access to any of these funds. Consequently, charter schools must use their operations funding to meet these needs. The percentage of operational funds used for facilities costs is 12 percent for site-based charter schools and 2 percent for virtual charter schools.

A long-term solution would provide charter schools with (access to) a proportionate share of school facilities revenue. Since the primary capital funding source is bond proceeds from ad valorem and other taxes, the State could require school districts to set aside a proportionate share of any new bond proceeds for charter schools located within the district, regardless of whether the school is sponsored by the district. California law states that "charter schools should get an equitable share of all bond issuances."[13]

Colorado, Florida, and New Mexico "provide certain charter schools with access to bond revenue. Accessing district bond revenue allows a charter school to rely on the school district to repay the debt rather than repaying the debt with its existing funding."[14] In other states, including California, charter schools have access to bond revenue but have to repay the debt. Again, this is challenging given that charter schools do not have access to local property tax revenues.

**Table 1. Capital Funds per Pupil, Fiscal Year 2014**

| A<br>District | B<br>Enrollment | C<br>Sales Tax | D<br>Residential Construction Tax | E<br>Real Property Transfer Tax & Room Tax | F<br>Ad Valorem (Voter-Approved) | G<br>Governmental Services Tax | H<br>Other Local Revenue | I<br>Federal Support | J<br>Total |
|---|---|---|---|---|---|---|---|---|---|
| Carson City | 7,274 | - | - | - | 742 | 62 | 11 | - | 815 |
| Carson Sponsored Charters | 220 | - | - | - | - | - | - | - | - |
| Churchill | 3,539 | - | 3 | - | 1,038 | 89 | 75 | 33 | 1,239 |
| Clark | 303,447 | - | - | 314 | 980 | 77 | 16 | 19 | 1,406 |
| Clark Sponsored Charters | 5,697 | - | - | - | - | - | - | - | - |
| Douglas | 5,885 | - | 36 | - | 420 | 166 | 1 | 60 | 682 |
| Elko | 9,496 | - | - | - | 1,388 | - | 36 | - | 1,424 |
| Esmeralda | 65 | - | - | - | - | - | 0 | - | 0 |
| Eureka | 238 | - | - | - | - | - | 2 | - | 2 |
| Humboldt | 3,363 | - | - | - | 464 | 78 | 2 | - | 544 |
| Lander | 1,064 | - | - | - | - | - | 0 | - | 0 |
| Lincoln | 934 | - | - | - | 489 | 166 | 13 | 34 | 703 |
| Lyon | 7,812 | - | 24 | - | 851 | 68 | 1 | - | 943 |
| Mineral | 439 | - | - | - | 835 | 90 | 1 | - | 926 |
| Nye | 5,036 | - | 17 | - | 1,231 | 114 | 40 | 158 | 1,560 |
| Pershing | 681 | - | - | - | 1,453 | 190 | 2 | - | 1,645 |
| Storey | 385 | - | 5 | - | 1,769 | 121 | 8 | - | 1,903 |
| Washoe | 60,796 | - | - | - | 786 | 52 | 48 | - | 887 |
| Washoe Sponsored Charters | 2,466 | - | - | - | - | - | - | - | - |
| White Pine | 1,303 | 234 | - | - | 621 | 74 | 34 | - | 963 |
| SPCSA | 15,415 | - | - | - | - | - | - | - | - |
| **Statewide** | **435,557** | **1** | **1** | **219** | **890** | **69** | **20** | **16** | **1,216** |

Several states, including California, have imposed eligibility requirements on charters seeking access to bond revenue funds. For example, charters in San Diego have to be "in good standing" and open for five years to be eligible to apply for funds.

## Outsourcing of Centralized District Services

Regarding **Professional/Expert Management of Centralized District Services**, the Commission recommends as follows:

Recommendation 31: The 2017 Nevada Legislature should fund a consultant on behalf of school districts (Clark and Washoe): The purpose of the consultant is to develop a plan with the objectives to lower cost, improve services, and increase accountability in the essential business service areas of transportation, facilities maintenance, food services, information technology, or any other area that may realize the objectives listed. The plan should include input from within the respective districts as well as plans from external experts to manage those areas. All savings realized will be retained by the districts for instructional budgets.

*Background*: In an effort to improve efficiencies and service delivery (and potentially lower costs), several school districts around the country have opted to contract out some of the services previously overseen at the central district office. One model is that undertaken by the Houston Independent School District (HISD). In the mid to late 1990s, after extensive review, HISD determined it could better and more cost efficiently serve its students and its other stakeholders by outsourcing several of its business services - including among others, food services, facilities management, transportation, HR and IT – to third party, high quality, experienced providers. Following the outsourcing of these services, productivity increased, service delivery improved, and costs in some areas were lowered.

As stated by professionals who were involved in the implementation of the outsourcing of some services in HISD, "The outsourcing of non-core functions to best in class third party providers is a proven strategy that has been used for decades by organizations of all sizes in the private and public sectors. Employing these strategies and staying true to the goals and objectives noted above allow districts to reduce inefficiencies and focus attention, energy, and efforts on the primary focus of any education administration: student performance in areas such as graduation rates and subject matter proficiency (i.e., reading, math, science, technology, etc.)."[15]

After learning about the Houston Independent School District experience, the SAGE Commission members agreed that there would be some value (and long-term financial benefit, possibly) in exploring how Nevada's school districts might professionally manage some of the services (e.g., transportation, facilities maintenance, food services, information technology) currently administered by school districts. As such, the SAGE Commission recommends that the 2017 Nevada State Legislature fund a consultant on behalf of school districts whose task is to develop an outsourcing plan with the objectives to lower cost, improve services, and increase accountability in the essential business service areas of transportation, facilities maintenance, food services, information technology or any other area that may realize the objectives listed. The plan should include input from within the respective districts as well as plans from external experts to manage those areas. All savings realized will be retained by respective districts for instructional budgets.

## Efforts to Increase High-Quality Teachers

Regarding **Efforts to Increase High-quality Teachers**, the Commission recommends as follows:

Recommendation 32: The Nevada State Legislature should consider requiring school districts to develop measurable objectives for and report on an evaluation of the impact of the new salary schedules, teacher retention and teacher incentive programs against the measurable objectives. The report shall be posted to the district website and annually presented to the State Board of Education.

*Background*: Recently, Nevada has implemented several performance-based compensation and incentive programs. Among these are the Teach Nevada Scholarship, the Enhanced Compensation and Performance Pay program, and Victory and Zoom Program incentive funds. However, neither the State nor local education agencies have yet to articulate consistent performance metrics or outcomes across all programs. The Nevada Department of Education allows flexibility in the implementation of the performance-based compensation and incentive programs so that school districts can best respond to the unique needs of each school and district. However, in exchange for this flexibility, the State should strengthen measures of accountability and establish statewide performance metrics to ensure that funds are being used in effective ways that serve the goals of the performance-based compensation and incentive programs. The SAGE Commission recommends that NDE create uniform statewide measurable objectives for evaluation of performance-based compensation and incentive programs.

Similarly, over the last few years, school districts and the Nevada Legislature have established programs to improve the recruitment and retention of (high-quality) teachers. For example, in 2015, the Nevada Legislature established the Great Teaching and Leading Fund to help recruit and retain high quality teachers. This year, the Clark County Education Association and Clark County School District implemented the Professional Growth System, which restructures the traditional salary schedule in ways that reward improved educator practice and provide career advancement options for educators who do not want to leave the classroom. To assess the State's return on investment and identify best practices that can be replicated in other school districts around the State, the Nevada State Legislature should require school districts to evaluate the impact of the new salary schedules and teacher incentive programs against the measurable objectives. This information should be presented annually to the State Board of Education.

Recommendation 33: The 2017 Nevada State Legislature should continue funding the Teach Nevada Scholarship and Incentive Fund program and approve the appropriation by the end of March 2017 so these funds can be advertised during spring recruitment.

*Background*: Incentive programs around the country have had some success in improving student academic outcomes, increasing teacher retention, filling hard-to-fill teaching positions, and/or reducing teacher vacancies at under-performing schools. Research also indicates that performance-based *bonuses* may be more effective than performance-based *salary increases*.[16]

In 2015, the Nevada Legislature passed Senate Bill 511, which established the Teach Nevada Scholarship Program and provides $10 million each year of the 2015-2017 biennium. The bill requires that school districts who apply for Teach Nevada Scholarship Funds use the monies to "recruit teachers to certain schools that have a high need for teachers through its program of performance pay and enhanced compensation."[17] Specifically, school districts must use the grant money they receive to "increase the base salary of newly hired teachers at such schools for their first two years of employment," and "provide professional development to said teachers during their first two years of employment."[18] The amount is not to exceed $4,000 per school year and teachers are not entitled to continue to receive the incentive after the 2016-17 school year.

School districts have reported that this program has helped them to reduce the number of teacher vacancies. Moreover, school district officials shared that the ability to advertise this incentive program when talking to new teachers will bolster their spring recruitment efforts. As such, the SAGE Commission recommends that the Nevada Legislature continue funding the Teach Nevada Scholarship and Incentive Fund program and approve the appropriation by the end of March 2017 during the 79th Legislative session so these funds can be advertised during spring recruitment efforts by school districts.

Recommendation 34: The Nevada State Legislature and Nevada Department of Education should revise the target of current incentive programs to the following categories of teachers: (1) high-quality teachers (as demonstrated by the NEPF "highly effective" ratings) to teach in the State's under-performing, high poverty schools, (2) Special Education teachers, (3) and math and science teachers.

*Background*: During the 2015 78th Nevada Legislative Session, lawmakers approved several programs aimed at recruiting and retaining teachers, including the Teach Nevada Scholarship and New Teacher Incentive fund. This fund provides a one-time incentive to ***new*** teachers.

However, Nevada should continue using incentives but revise the program to target and attract high-quality teachers to hard-to-fill positions and to high-need schools. Specifically, the Nevada State Legislature and Nevada Department of Education should revise the incentive program to target: (1) high-quality teachers (as demonstrated by the NEPF "highly effective" ratings) to teach in the State's under-performing, high poverty (Title I) schools, (2) Special Education teachers, and (3) and math and science teachers.

## Efforts to Control Personnel Costs

Regarding **Efforts to Control Personnel Costs**, the Commission recommends as follows:

Recommendation 35: The Nevada State Legislature should conduct a statewide assessment of both the State's health care benefit programs for teaching and support professionals, and of the State's worker's compensation program for teaching and support (administrative) professionals. The scope of the study could include:

a. An assessment of the school district's current programs, current pricing, coverage levels by district, provider network and case management, size of premiums, losses, etc.

b. Identification of opportunities to reduce current costs or contain future costs through alternative health care coverage

c. Identification of possible benefit models (e.g., joining a health insurance consortium, state health insurance plan, etc.) and the fiscal savings of implementing different benefit models

d. Feasibility analysis and potential fiscal benefit of restructuring the K-12 health care benefits system, and/or having rural districts "pool" health care benefit programs.

*Background*: Education is one of the biggest expenditures in Nevada's budget. In Fiscal Year 2015, Nevada spent approximately $4.06 billion on education, 80 percent of which was for salaries and benefits. In Nevada, the benefit package provided to teaching professionals includes health insurance. Health care costs and health insurance costs for employees are a growing fiscal concern for states and districts. Nationally, rising health care costs have been the focus of significant policy discussions. Legislation, such as the 2010 Affordable Care Act was presented as a solution to the problem of rising health care costs. Some education finance experts estimate that "school employees' health insurance consumes about 8 percent of all education spending at the combined local, state, and Federal levels."[19] One study estimated that the annual cost to employees for their share of health care premiums had increased 175 percent over the period 2003 to 2013.[20] And health care costs have been rising "10 to 15 percent annually."[21]

The Nevada Legislature includes money for health insurance in the Distributive School Account (DSA). Using average enrollment figures, the amount is calculated as a group insurance per student rate and given to the school districts. In 2015, the Legislature agreed on a group insurance rate of $6,927 per employee for both FY 2016 and FY 2017, which represented a 1.7 percent increase over the FY 2014 amount of $6,813 per employee. The group insurance funds are given directly to each school district. School districts, however, can increase the health care premium. The terms and conditions of health care benefits are negotiated in collective bargaining agreements at the local level.

There is considerable variation in the health care premiums offered by district. For example, the Fiscal Year 2015 group insurance rate funded by the State was $6,813. However, Carson City School District's health premium amount totaled $10,139. All school districts pay more in group insurance premiums than the State funds currently.

The two biggest urban school districts, Clark County and Washoe County, have self-funded health care systems. In Clark County School District, the self-funded group, run by the Clark County Education Association (CCEA), is called the Teachers Health Trust. Under the self-funded system, Teachers Health Trust directly pays health insurance claims (as opposed to using an insurer like Blue Cross/Blue Shield) from money that they put into their health insurance funds.

Unfortunately, rising health care costs have affected these self-funded health care systems sponsored by the school districts. According to testimony from CCEA representatives, the new teachers' contract approved in January 2016 provides the Teacher Health Trust with an additional $9 million of which without that contribution as well as health benefit changes to the health insurance plan the Trust would have faced a projected deficit of $20.6 million in 2016.[22]

In 2015, Washoe County School District paid $600 a month per employee for health care premiums, which amounted to roughly $7,200 each year. This amount is slightly more than the FY 2015 amount of $6,927 funded by the State. Faced with growing fiscal pressures, Washoe County School District increased the cost of health care premiums paid by instructional staff by five percent in January 2016.[23] In August 2016, the Washoe County School District Board of Trustees considered an additional seven percent increase to counter an "$8.25 million, or 11 percent, rise in costs expected in 2017."[24]

States are exploring creative, innovative ways to reduce costs, particularly health care costs. In Massachusetts, eleven colleges and universities around the state united to create their own self-funded health insurance company.[25] Several school districts in New York banded together to form a health care consortium, which is a group of school districts that join together to purchase group health insurance for their active employees, retirees and dependents.[26] A consortium may be fully-insured, self-funded, or a hybrid of the two. As noted by the New York State School Boards Association, "[f]or school districts that are struggling to rein in expenses, health insurance consortiums may be a viable cost-saving solution."[27]

Several times in recent years, policy makers and education leaders in Nevada have attempted to establish a health insurance pool similar to the Nevada Public Agency Insurance Pool (POOL/PACT), which enables Nevada public entities to obtain quality property casualty coverage at a reasonable cost.[28] Those involved with previous efforts noted that they have failed due to the "complexities of collective bargaining" associated with having seventeen collective bargaining units.

Additionally, school districts pay benefits that are required by Federal and State laws, such as workers' compensation, Medicare, and unemployment insurance. These benefit rates have changed over time. The unemployment insurance rate is set by the State. For example, in 2011, the Nevada Legislature increased the unemployment insurance from 0.36 percent to 0.55 percent for school districts and charter schools.[29]

There is tremendous variation in workers' compensation rates around the State. Urban districts tend to have lower workers' compensation rates: Clark County School District's rate is 0.70 percent and Washoe County School District's rate is 0.29 percent. At least one rural district has a lower rate: Douglas County School District's rate is 0.79 percent. However, the rates in most rural districts are significantly higher. The following school districts have workers' compensation rates that exceed 2.6 percent: Esmeralda, Lincoln, Mineral, Pershing, and White Pine. The actual cost of those benefits as a share of total benefits also varies. In Lincoln County School District, workers' compensation benefits account for 6.8 percent of all fringe benefits; they account for 4.2 percent in White Pine County School District, and 3.5 percent in Humboldt County School District. In contrast, they only account for 0.95 percent in Washoe County School District and 0.51 percent in Carson City School District.

Industry consultants have indicated that key drivers in workers' compensation rates are "claims, safety programs, provider networks and discounted fee schedules, and "return-to-work" programs."[30] According to industry representatives, some rural school districts in Nevada "do not have strong safety programs" and they lack a "return-to work-program" that urban districts have.[31]

Insufficient access to health care providers in rural districts can also drive up costs, particularly if employees are forced to rely on the nearest emergency room or health care services. Higher medical reimbursements lead to higher rates and pricing for workers' compensation benefits.[32] Additionally, because of the relatively few number of teaching professionals employed by school districts in the smaller, rural counties, teaching professionals may be pooled with or participate in their local county's workers' compensation program, which includes public safety personnel (e.g., fire fighters, law enforcement, etc.). Public safety employees, however, tend to have a larger risk exposure for insurance companies, which can also drive up workers' compensation rate plans for school districts.

To address the rising costs of benefits for instructional staff in Nevada's K-12 Public Schools, the SAGE Commission recommends that the Nevada State Legislature conduct a statewide assessment of both the State's health care benefit programs for teaching and support professionals, and of the State's worker's compensation program for teaching and support, and administrative professionals. Considerations should be given to school districts joining the southern Nevada Health Services coalition, a nonprofit organization dedicated to raising the quality of healthcare, maintaining high standards of healthcare transparency and accountability and keeping healthcare costs affordable and stable for all southern Nevadans.[33]

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