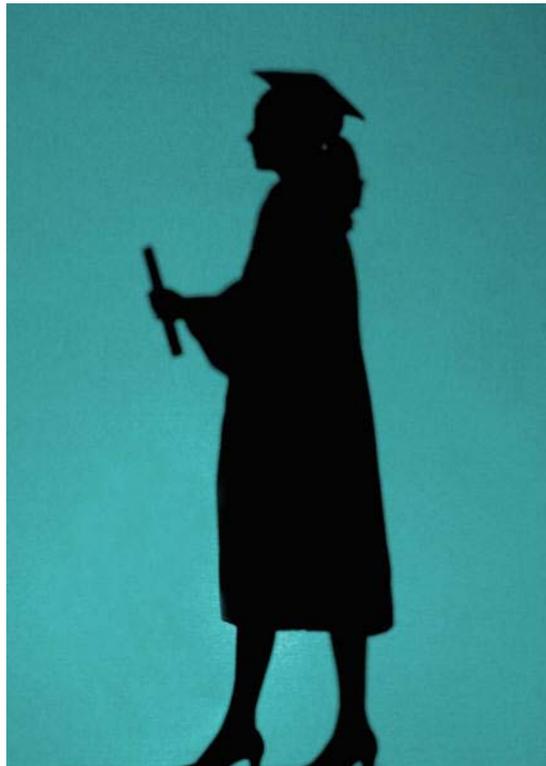


# **The NEVADA PLAN For School Finance**

## **An Overview**



**Fiscal Analysis Division  
Legislative Counsel Bureau**

**2011 Legislative Session**

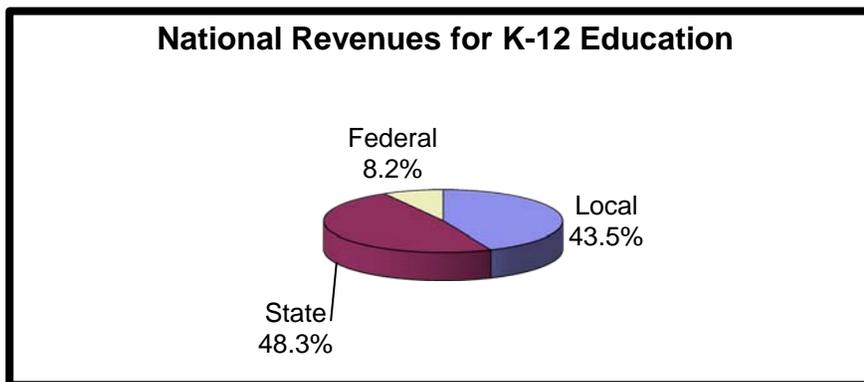


# Nevada Plan for School Finance

## Overview of Public K-12 School Funding

The National Center for Education Statistics reports that approximately \$584.7 billion was collected in revenues for public elementary and secondary education in the United States in FY 2008. 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 \$537 billion or approximately 92 percent of all revenues; the federal government's contribution was \$47.7 billion, or approximately 8 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 15.6 percent in New Mexico to 62.6 percent in Nevada. 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 2008

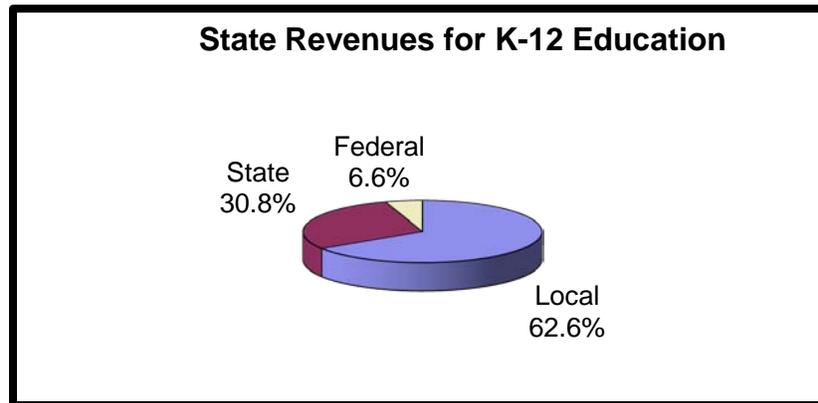


Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," FY 2008, Version 1a.

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 outlay, 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 2008 were approximately \$506.8 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 2008 exceeded \$4.36 billion. Figure 2 depicts the approximate funding mix of revenues in Nevada's public schools.

Figure 2. The State of Nevada: Revenues by Source FY 2008



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," FY 2008, 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 Eureka County's mining industry, less than 1 percent of its general fund revenue will come from state aid in FY 2008-09, but Lincoln County will receive approximately 90 percent of its general fund revenue from state aid.

### Background of the Nevada Plan

In order to ensure an adequate educational opportunity for all Nevada students, regardless of individual school district wealth, the 1967 Legislature adopted the Nevada Plan (NRS 387.121) as the mechanism to finance elementary and secondary public education in the State. 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 to school districts' and charter schools' general fund resources.

To determine the level of guaranteed funding for each school district and charter school, a basic support per pupil amount is calculated for each school district and is established in law each legislative session. The amount is determined by a formula that allows for differences across school districts in the costs of providing education and in local wealth. It should be noted that the Legislature does not approve the school districts' budgets. Through the guaranteed basic support, the Legislature determines a significant portion of the local school districts' operating funds. However, the budgets of each school district and charter school are approved by their local school boards and governing authorities.

The *difference* between total guaranteed support and certain local resources (LSST and one-third of the proceeds from the 75-cent ad valorem property tax rate) considered within the Nevada Plan is state aid and is funded by the State's Distributive School Account (DSA). The DSA is the budget through which the State distributes direct financial aid to local school districts. It does not include the entire funding for K-12 education but rather includes only the State's portion of the guaranteed basic support.

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.

### **History of K-12 School Funding in Nevada**

For over 30 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 DSA were increased to offset the effects of reducing property tax for schools and of removing the sales tax on food. To reduce the cost to the State General Fund, the LSST (sales tax) was increased from 1 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 (sales tax) 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.

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 and Tax Relief Act of 2001, the estate tax revenues in the DSA declined and have been eliminated. The Act annually reduces, and then repeals, the federal estate tax effective in 2010. Nevada's allowable "pickup" credit was reduced by 25 percent in 2002, by 50 percent in 2003, by 75 percent in 2004, and repealed in 2005. Nevada also realized a reduction in revenue from the estate tax "pickup" because of changes to the estate tax exemption, which increased from \$675,000 in 2001 to \$1 million in 2002 and to \$1.5 million in 2004.

Initiative Petition 1, though not signed by the Governor, became law in 2009 pursuant to Article 4, Section 35 of the Nevada Constitution. This Initiative imposes an additional tax on the gross receipts from the rental of transient lodging in certain counties. The proceeds of this tax must be credited to the State General Fund between July 1, 2009, and June 30, 2011. Beginning on July 1, 2011, the proceeds must 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. The proceeds are not intended to supplant or replace any other money provided to fund the operation of public schools for kindergarten through grade 12.

## **K-12 School Funding in Nevada**

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.

In FY 2009, Nevada schools reported spending approximately \$3.12 billion from their general funds (their primary operating account, which excludes construction, equipment and debt-financing) to operate Nevada's public elementary and secondary schools. This amount, which is represented by the top two circles on the diagram in Appendix B, equals the total budgeted general fund expenditures of Nevada's school districts and charter schools.

The top circle, represents the basic level of financial support for schools that is guaranteed by the Nevada Plan. Nevada Plan funding is guaranteed by the State in the sense that if certain local "inside" revenues fall short of expected levels, the State makes up the difference. Conversely, if those local "inside" revenues exceed estimates, state aid is reduced. Both local and state resources support the top circle.

### DSA Funding - State Aid to Local Schools

On average, approximately 41 percent of schools' general fund revenue comes from state aid funded by the DSA in the State General Fund. In addition to an appropriation from the State General Fund, which is budgeted to provide approximately 88 percent of the revenue to the DSA each year for the 2009-11 biennium, the State's responsibility is satisfied by several other dedicated revenues, including:

- A share of the annual slot tax;
- Investment income from the permanent school fund;
- Federal mineral land lease receipts;
- Sales tax on out-of-state sales that cannot be attributed to a particular county; and
- Estate tax.

It should be noted that although the state estate tax was eliminated in 2005, the Department of Taxation is still permitted to collect estate tax from estates subject to the tax on or before December 31, 2004.

## Local Funding

Local revenue sources contribute about 58 percent, on average, of the revenue for schools' general funds. The second circle in the diagram in Appendix B represents funds collected at the local level, but it also includes a small amount of non-categorical federal funding.

Local sources may be broken down as those "inside" and those "outside" the Nevada Plan. Local revenues "inside" the Nevada Plan consist of one-third of the proceeds generated by the 75-cent property tax rate imposed pursuant to NRS 387.195 (earmarked for school operations) and a 2.60 percent LSST. (The LSST is imposed at a rate of 2.60 percent between July 1, 2009, and June 30, 2011. Effective July 1, 2011, the rate reverts to 2.25 percent.) Local revenues included "inside" the Nevada Plan formula are subtracted from the state-guaranteed support to determine the State's financial responsibility.

The major component of local revenues considered "outside" the Nevada Plan is the remaining two-thirds of the proceeds generated by the 75-cent property tax rate. Other sources of local revenue "outside" the Nevada Plan formula are:

- Share of basic government services tax distributed to school districts;
- Franchise taxes;
- Interest income;
- Tuition;
- Rent;
- Non-categorical federal funds, such as Impact Aid (now Title VIII of the Elementary and Secondary Education Act of 1965) received in lieu of taxes for federally impacted areas; and
- Opening general fund balance.

Unlike the two local revenues "inside" the Nevada Plan formula, state aid is not reduced when revenues "outside" the formula exceed estimates. Conversely, when collections of revenues "outside" the formula fall short, the State does not make up the difference. Revenues "outside" the formula are considered, however, when determining each school district's relative wealth.

## Federal Categorical Funds

Federal categorical funds contribute less than 1 percent of the revenue for schools' general funds. The small circle located at the bottom right-hand corner of the diagram in Appendix B represents federal categorical funds. These special revenue funds include:

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

## Other Funds

The small circle located in the bottom left-hand corner of the diagram in Appendix B represents funding accounted for in Other Funds. These funds for capital projects include:

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

## The Funding of Schools in Nevada – FY 2009 Actual

The pie chart and table included in Appendix C illustrate schools’ general fund revenues for FY 2009. Revenue “outside” the Nevada Plan is depicted by the slices removed from the pie (local – 22.36 percent and federal and other – 0.35 percent) and the Nevada Plan revenue (total guaranteed support) is the rest of the pie (77.29 percent).

## **Biennial Budget**

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 coming 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 or 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.

To protect districts during times of declining enrollment, the Nevada Plan includes a "hold-harmless" provision (NRS 387.1233 Sections 2 and 3). Since FY 2001-02, the hold-harmless provision provides that enrollment must be based upon the larger of the current year's enrollment, or that of either of the previous two years. The 2007 Legislature amended the hold-harmless provision, beginning in FY 2008-09, to provide for a one-year hold-harmless, except for districts with enrollments declining 5 percent or more, which will be allowed a two-year hold-harmless.

An additional provision assists school districts that experience significant growth in enrollment within the school year. If a district grows by more than 3 percent 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 more than 6 percent, the growth increment is 4 percent.

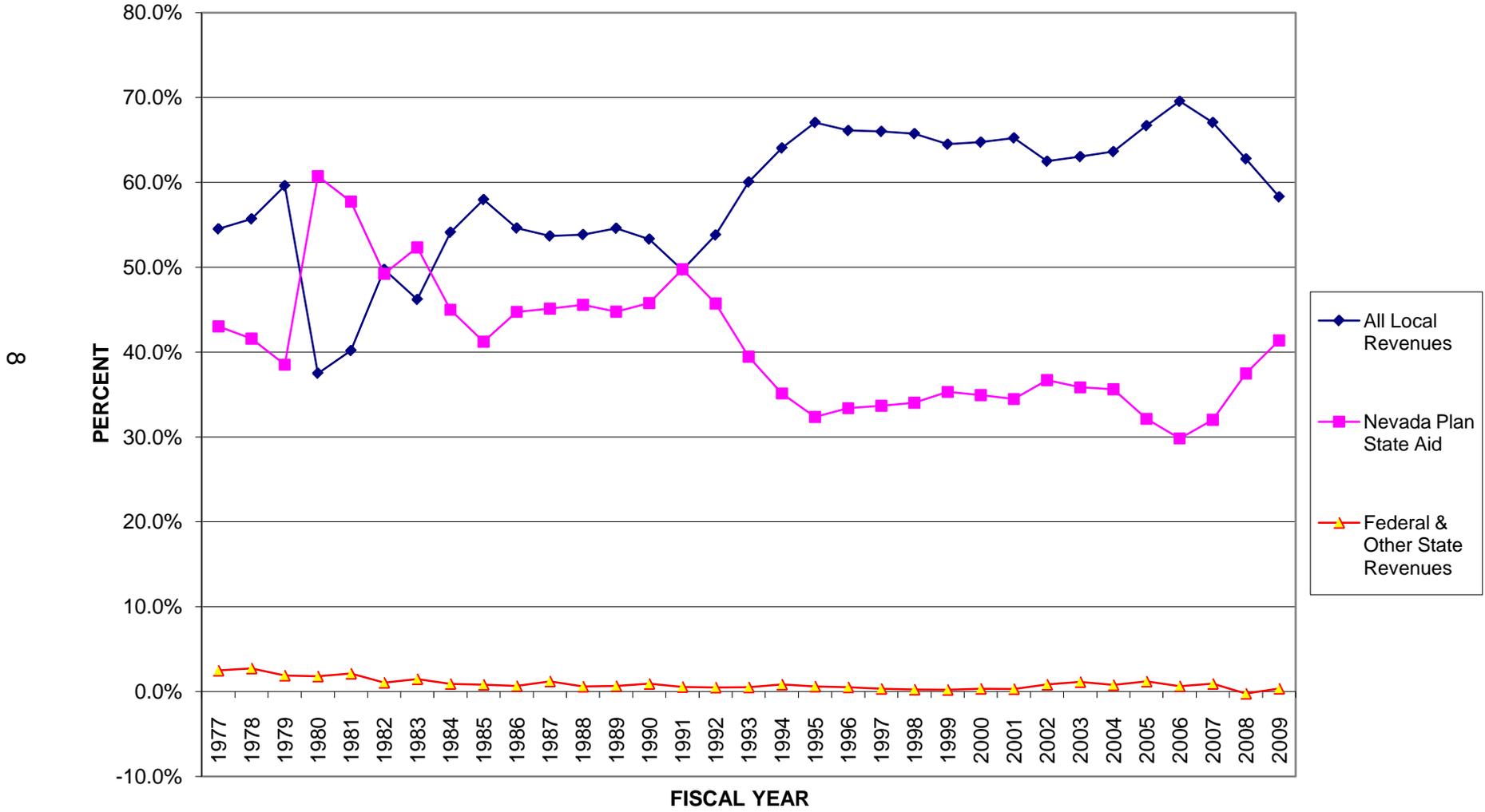
### **The Nevada Plan – An Example**

A brief narrative description of the Nevada Plan appears in Appendix D, and an example of how the plan is applied to a hypothetical school district is included. To understand how the plan works, follow the steps in the example.



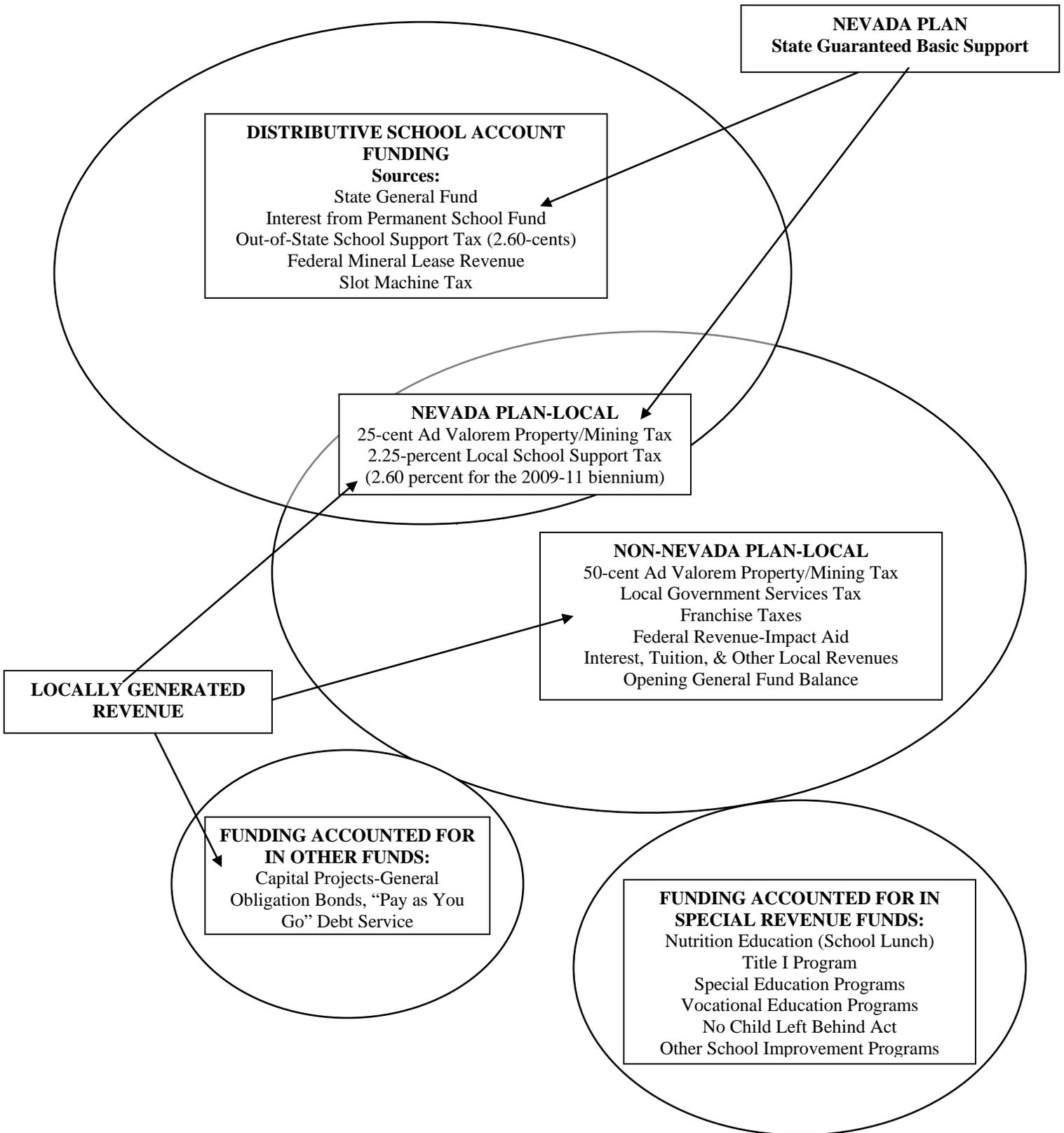
# NEVADA SCHOOLS' GENERAL FUND RESOURCES

Percent by Source: FY 1977 through FY 2009





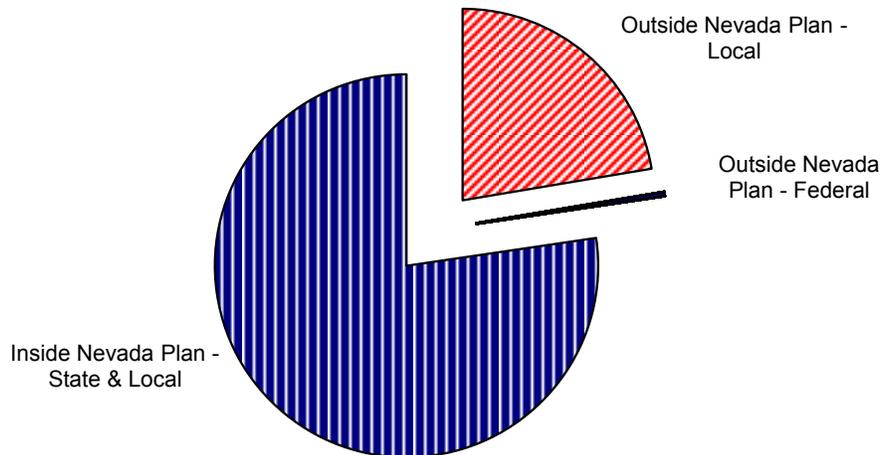
# THE FUNDING OF SCHOOLS IN NEVADA





## Nevada Schools' General Fund Revenues - FY 2009 Actuals

### FY 2009 - Schools' General Funds



#### NON-NEVADA PLAN LOCAL REVENUE:

50-cent Ad Valorem (Property & Mining) Tax	\$530,388,463	
Basic Government Services Tax	\$82,870,910	
Franchise Taxes	\$3,470,091	
Other (Interest, Sale of Assets, Transfers, Adjustments	\$56,982,717	
<b>TOTAL NON-NEVADA PLAN LOCAL REVENUE</b>	<b>\$673,712,181</b>	
% of Total Revenue		22.36%

#### NON-NEVADA PLAN FEDERAL REVENUE:

Impact Aid (P.L. 874)	\$4,905,338	
Forest Reserve	\$1,426,463	
Fish & Wildlife	\$57,697	
Other Federal Revenue	\$3,159,394	
<b>TOTAL NON-NEVADA PLAN FEDERAL REVENUE</b>	<b>\$9,548,892</b>	
% of Total Revenue		0.32%

#### NEVADA PLAN REVENUE:

25-cent Ad Valorem (Property & Mining) Tax	\$265,194,231	
Local School Support Tax (sales tax)	\$817,259,814	
State Responsibility (through Distributive School Account)	\$1,246,629,447	
<b>TOTAL NEVADA PLAN REVENUE</b>	<b>\$2,329,083,492</b>	
% of Total Revenue		77.29%
<b>OTHER STATE SUPPORT</b>	<b>\$799,827</b>	0.03%
<b>TOTAL STATE REVENUE</b>	<b>\$2,329,883,319</b>	

<b>TOTAL REVENUE, NEVADA SCHOOLS:</b>	<b>\$3,013,144,392</b>	<b>100.0%</b>
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Source: NRS 387.303 Report



## The Nevada Plan - An Example

To understand how the Nevada Plan model works, a step-by-step example is presented beginning on the following page. The count of pupils for apportionment purposes (1) is the number of children enrolled on the last day of the first school month in regular or special education programs, except that each kindergarten pupil and disabled or gifted and talented child under the age of five is counted 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, the hold-harmless provision allows the higher of the current or the previous two years' enrollment to be used.

This weighted apportionment enrollment figure is multiplied by the basic per-pupil support guarantee for the school district for that school year (2) to determine the school district's guaranteed basic support (3). Next, 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 (4), and the product is added to basic support to obtain the school district's total guaranteed basic support (5). This product is the amount of funding guaranteed to the school district from a combination of state and local funds.

Revenue received by the school district from the 2.60 percent Local School Support Tax (LSST) (reverts 2.25 percent effective July 1, 2011) and one-third of the proceeds generated by the 75-cent property tax rate (6) is deducted from the school district's total guaranteed basic support to determine the amount of state aid the district will receive (7). If local revenues from these two sources are less than anticipated, state aid is increased to cover the total basic support guarantee. If these two local revenues come in higher than expected, state aid is reduced. The difference between total guaranteed support and local resources is state aid, and it is funded by the Distributive School Account (DSA).

An amount for any specific program, funded by the Legislature through the DSA, is added to a school district's total state aid to determine the total amount of revenue the school district will receive from the DSA (9).

Sources of revenue "outside" the formula are summed (15) and are added to total guaranteed support (5) and the amount provided for adult high school diploma programs and other legislatively-approved programs (8), to determine the school district's total available resources (16).

## The Nevada Plan - An Example (*continued*)

The following example illustrates the guaranteed funding process based on the revenue of a hypothetical 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 School Year 2XXX		
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 percent Local School Support (sales) Tax** 1/3 of the proceeds from 75-cent tax rate	(\$ 15,540,000) <u>(\$ 4,600,000)</u>
7	= State Responsibility	\$ 18,740,000
8	+ Other State Programs funded through DSA (i.e., Adult High School Diploma Funding)	<u>\$ 35,000</u>
9	= Total Revenue from Distributive School Account	\$ 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	Motor Vehicle Privilege Tax	\$ 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, & 15)	<b>\$ 51,975,000</b>

\*Weighted apportionment enrollment includes six-tenths of the count of pupils enrolled in kindergarten, six-tenths of the count of disabled 3- and 4-year-olds, 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.

\*\*The 2.60 percent LSST tax reverts back to 2.25 percent effective July 1, 2011.