

**COMMITTEE TO STUDY
A NEW METHOD FOR FUNDING PUBLIC SCHOOLS IN NEVADA
(SENATE BILL 11, 2011 LEGISLATURE)**

**WORK SESSION
August 28, 2012**

The Committee to Study a New Method for Funding Public Schools in Nevada, through the passage of Senate Bill 11, was appointed to study the development of a new method of funding public schools in Nevada that would account for, and be based on, differences in the needs and characteristics of individual students. Senate Bill 11 requires that the Committee consult with and solicit input from individuals and organizations with expertise in school finance. At the Committee's last meeting on August 14, 2012, Committee consultant American Institutes for Research (AIR) reviewed and discussed major issues related to the state's existing public school finance formula and presented proposed recommendations for improvement to the state's formula model. Lastly, pursuant to S.B. 11, the Committee is required to submit a final report of the results of the study and any recommendations for legislation to the 77th Session of the Nevada Legislature.

This document is designed to assist the Committee members in making decisions during the work session concerning the final report from the consultant and determining recommendations to be forwarded to the 2013 Session of the Nevada Legislature. The Committee is permitted five bill draft requests, including requests for the drafting of legislative resolutions, and must make its bill draft requests by September 1, 2012, unless the Legislative Commission authorizes submission of a request after that date.

The major issues identified and discussed below represent the main policy aspects for which the Committee may wish to consider recommending any of the following actions: 1) request legislation; 2) request a resolution; 3) draft a letter; 4) include a statement of support in the final report of the Committee; 5) take other action; or 6) take no action.

Public School Finance Model and Special Education Issues

1. Documentation of the Data Modules Supporting the State's Public School Finance Model and Special Education
2. Periodic Review of the State's Public School Finance Model
3. Teacher Allotment Table, Attendance Areas and District Groupings
4. Implicit Wage Differential Adjustment in the Existing School Finance Model
5. Weighted Adjustments to the State's Public School Finance Model
6. Special Education Funding Policy Recommendations
7. Alternatives for Determining Enrollment for Funding Allocations
8. Flexibility Options for Categorical Funding

1. Documentation of the Data Elements Supporting the State's Public School Finance Formula, Including Special Education

Summary of Issue: AIR's analysis of the state's existing school finance model, also known as the Distributive School Account (DSA) equity allocation model reveals that documentation of the data elements supporting the model (currently 12 calculation modules), including definitions, procedures, and in some cases rationale, along with the documentation supporting the basis for the allocation of special education unit funding, was either lacking or in some cases non-existent. As such, AIR recommends the creation of an independent, stand-alone document to define all data modules and procedures of the DSA equity allocation model which would improve the maintenance, transparency and implementation of the model (AIR Final Report, page 103).

According to AIR, a majority of states' public school finance formulas are included in statute. It should be noted that except for a broad conceptual framework and overview of the Nevada Plan, and limited information pertaining to special education outlined in Chapter 387 of the *Nevada Revised Statutes*, the mechanics of the DSA equity allocation model and special education funding are not prescribed in statute.

To address the documentation issue for the state's public school finance formula and special education, the Committee may wish to consider options including:

- a. Recommend legislation to amend NRS 387 to include the definition of the data modules (currently 12 calculation modules) of the DSA equity allocation model, the manner in which the data is used in the model and the basis for the allocation of special education funding. In addition, a stand-alone procedures manual for administration of the state's school finance model and special education funding should be developed by the Department of Education and made available on its website.**
- b. Draft a letter to the Governor recommending that the Department of Education create an independent, stand-alone document to define procedures and all data modules of the state's DSA equity allocation model and the allocation methodology of special education funding.**

2. Periodic Review of the State's Public School Finance Model

Summary of Issue: AIR's analysis of the state's existing finance formula also identified several underlying data modules currently used in the DSA equity allocation model that had not been updated since 2004. Presently, there is no statutory or regulatory requirement that the state's school finance formula be periodically reviewed and data modules updated. Several of the data modules of the formula were last reviewed and modified by an evaluation team in 2006 comprised of finance representatives from school districts and the Department of Education.

In its final report on the study of the state's existing school finance model, AIR states that while it does not believe that many of the relationships that are utilized and measured within the formula's data and calculations change rapidly over time (e.g. from year to year), over longer periods (e.g. five years) it is important to update these elements as enrollments and services may change in response to changes in local conditions. As a result, AIR recommends that the underlying data modules utilized within the DSA equity allocation model should be reviewed and updated no less frequently than every five years (AIR Final Report, page 103)..

Based upon the information above, options the Committee may wish to consider include:

- a. **Recommend legislation to amend NRS 387 to require the Department of Education to review and update the underlying data modules utilized within the DSA equity allocation model and special education funding every five years.**
- b. **Draft a letter to the Governor recommending that the Department of Education adopt a 5-year review and update policy of the underlying data modules of the DSA equity allocation model and special education.**

3. Teacher Allotment Table, Attendance Areas and District Groupings

Summary of Issue: As noted previously, the DSA equity allocation model is comprised of 12 calculation modules. As stated by AIR in its final report (page 101), the teacher allotment table (1 of the 12 calculation modules) is a critical component of the DSA equity allocation model and was last reviewed several years ago. This table provides the foundation for adjustments that account for the variation in the relative costs of services across the districts corresponding to differences in size and sparsity. In addition to the recommendation to adopt a systematic review of all data modules of the DSA equity allocation model, AIR recommends that a panel be organized to review the following:

- a. Existing school-level data on enrollments and actual teacher allocations and compare current pupil teacher ratios with those suggested by the existing teacher allotment table (AIR Final Report, page 101).
- b. The structure and underlying concepts on which attendance areas were built and the way in which full-time equivalent (FTE) allocations generated by the teacher allotment table are affected by the choice of attendance areas. Additionally, based on the review of the attendance areas module, evaluate whether the teacher allotment table should be applied to school catchment areas or zones rather than the larger attendance areas (AIR Final Report, page 102).
- c. The criteria for grouping districts for the calculations contained within the DSA equity allocation model. Specifically, investigate the appropriateness of the existing district groupings and analyze staffing and expenditures on

non-personnel resources across districts in relation to their size, density values and other criteria such as distances between schools, which would inform policymakers whether the existing groupings of districts are appropriate and what impact alternative groupings would have on the formula allocations (AIR Final Report, page 104).

Based upon AIR's recommendations, the Committee may wish to consider the following options:

- a. Draft a letter to the Governor recommending that the Department of Education review the Teacher Allotment Table, Attendance Areas and District Groupings, as directed in Items (a) through (c) above.**
- b. Include a statement of support in the Committee's final report that recommends creating a panel of education stakeholders to review the Teacher Allotment Table, Attendance Areas and District Groupings, as directed in Items (a) through (c) above.**

4. Implicit Wage Differential Adjustment in the Existing School Finance Formula

Summary of Issue: The DSA equity allocation model attempts to adjust for labor market differences through the model's grouped average levels of compensation of school personnel. According to AIR, although the grouping of these averages reduces the ability of any given district to impact the average on which its own funding is determined, the implicit average compensation indices that help drive the basic support ratio at least partially reflect district decisions regarding personnel rather than external factors affecting the supply of labor and thus the market price of comparable staff.

As such, AIR recommends that the state consider replacing the implicit wage differential adjustment in the existing DSA equity allocation model with a more objective measure or index to capture differences in the prices of educational resources in adjusting distributions of school funding to local school districts (AIR Final Report, page 103).

One example of a more objective measure, as provided by AIR, is the Comparable Wage Index (CWI). As noted by AIR, the CWI is intended to capture the variations in the market price of hiring and retaining education staff across different geographic regions of Nevada. The CWI provides estimates of the wages of non-education workers who have comparable characteristics and educational attainment, while controlling for regional differences in the composition of industries. Moreover, AIR states that the CWI is explicitly designed to capture the differences in the staffing prices derived from the supply side of the market and are therefore outside the control of district preferences.

Based upon the recommendation provided by AIR, the following options are presented for the Committee's consideration:

- a. Recommend legislation to replace the implicit wage differential adjustment in the existing DSA equity allocation model with the Comparable Wage Index.**
- b. Draft a letter to the Governor recommending that the Department of Education replace the implicit wage differential adjustment in the existing DSA equity allocation model with the Comparable Wage Index.**

5. Weighted Adjustments to the State's Public School Finance Model

Summary of Issue: AIR's examination of the state's public school finance model reveals that the current funding system only addresses the vertical equity needs of special education pupils, but does not provide differentiated resources for the needs of other types of pupils. According to AIR, one of the criteria for an optimal funding allocation system is that the resource allocation system must be horizontally and vertically equitable; that is, distribute funds to serve students with like needs in a like manner and serve students with different needs in systematically different ways.

Low-Income/At-Risk Pupils

Results from the 50-state school finance survey conducted by AIR show that several states report providing supplemental funding for low-income/at-risk students and English learners. Most states use weighted approaches to provide the supplemental funding. A total of 36 states supplement the general state finance system for low-income students, a proxy for low achievement and/or being at risk of dropping out of school. Nevada is one of 14 states that do not provide additional state funding for these at-risk students. Currently, the state relies on federal funding through distributions of Title I dollars under the federal Elementary Secondary Education Act to provide funding for low-income students. Weights for low-income/at-risk students vary from 0.05 in Mississippi to 0.97 in Maryland. Most states however, provide approximately an additional 0.20 to 0.25 in funding per pupil beyond the base funding allocation.

English Language Learners

AIR reports that funding for English language learners (ELL) is a growing area of interest across the states. Currently, 42 states provide additional support for ELL students while 8 states, including Nevada, do not. AIR indicates that states support ELL students through a variety of funding methods, including weighted approaches, block grants, per-pupil funding, unit funding and lump-sum general state appropriations. Under the weighted approach, weights vary widely from 0.10 in Texas to 0.99 in Maryland, with the average weight at 0.387, or 38.7 percent in funding.

AIR also reports that 32 states recognize size and/or sparsity of small schools or districts. Small size is used to adjust funding in 25 states of which 15 states provide support to isolated school districts with some states utilizing both adjustments. Eighteen states do not include either factor in their funding system while several states include both.

With respect to a size/sparsity adjustment, AIR's analysis of the state's existing funding formula indicates that Nevada's current adjustment for differences in educational costs associated with the scale of operations is larger than the 10 states with the most aggressive funding profiles for scale of operations. AIR stresses that the final determination of what the scale adjustment should be is ultimately a policy decision.

Other notable areas in which states provide weights or adjustments to the base funding is career and technical education (28 states, including Nevada), gifted and talented (33 states) and according to AIR, the most prevalent type of funding weight used across the states is for different grade levels.

AIR reports that low-income students and English learners are widely accepted in the mainstream education finance literature to be associated with higher costs, and as such, AIR strongly recommends that funding adjustments be incorporated into the current funding system to account for these student need and cost factors (AIR Final Report, page 105).

AIR notes that under the current system of state funding, some districts are receiving more funding and some are receiving less funding than they might get under a more equitable arrangement. AIR further cautions that changes in the way funds are distributed, even in a way that is fiscally neutral for the state, have significant implications for individual districts. Therefore, AIR strongly recommends using a phase-in of any selected funding alternative over a three to five-year period which will allow local decision makers an opportunity to carry out any changes in resources in a thoughtful manner to reduce the severity of the impact on existing programs and students being served (AIR Final Report, page 112) .

Policy decisions related to the recommendation to incorporate funding adjustments into the state's current school finance model outlined by AIR include:

- Identify the specific student needs or characteristics for which funding adjustments should be provided.
- The specific weights that should be adopted.
- Whether the state's existing size/sparsity adjustment should be modified to be aligned with the 10 states with the most aggressive scale adjustment or be replaced with a weighted adjustment;
- Development of eligibility criteria and ways to minimize incentives for over classification;
- How to count pupils that might fit into multiple need categories; and
- Timeframe and Implementation Method.

Based upon the AIR’s recommendation, does the Committee wish to recommend that weighted adjustments for Low-Income/At-Risk and ELL pupils be incorporated into the state’s existing public school finance model?

If so, does the Committee wish to recommend legislation to amend NRS 387 to incorporate the weighted adjustments or draft a letter to the Governor recommending the Department of Education adopt, by policy, a provision to incorporate the weighted adjustments into the existing public school finance model?

If the Committee recommends the addition of weighted adjustments, the Committee should also discuss the related policy decisions below to be included in the legislation or letter:

- **The specific weights that should be adopted;**
- **Whether the state’s existing size/sparsity adjustment should be modified to be aligned with the 10 states with the most aggressive scale adjustment or be replaced with a weighted adjustment;**
- **Development of eligibility criteria and options to minimize or eliminate incentives for over classification;**
- **How to count pupils that might fit into multiple need categories; and**
- **Timeframe and Implementation Method**

6. Special Education Funding Policy Recommendations

Summary of Issue: Since 1973, state law has provided a “unit” funding mechanism to enable school districts to operate specialized educational programs for students with disabilities. NRS 387.1221 defines a unit as “an organized unit of special education and related services which includes full-time services of persons licensed by the Superintendent of Public Instruction or other appropriate licensing body, providing a program of instruction in accordance with minimum standards prescribed by the State Board.” The total legislatively approved number of special education units statewide for FY 2013 is 3,049 with a value of \$39,768 per unit. Each district is assigned a specific number of units. The State Board of Education is assigned a total of 40 discretionary units for which school districts and charter schools may apply.

It should be noted that the state’s special education unit funding is handled outside the state’s DSA equity allocation model. One reason for treating special education separately is for the state to be able to demonstrate its maintenance of effort (MOE) in funding special education services in compliance with the federal Individuals with Disabilities Education Act (IDEA).

As detailed by AIR, there are two main issues with the state’s existing approach to funding special education. The first issue is that over time, the state’s unit funding has not kept pace with the actual number of units operating or with the growth in salaries and benefits of licensed teachers and professionals. Additionally, AIR notes

that since the unit in theory is supposed to represent the value of a licensed teacher or professional, it does not provide support for instructional aides or non-personnel resources that may be necessary to provide services to students with disabilities.

The second issue is, based upon AIR's analysis of the state's funding of special education, that there does not appear to be any rational or systematic process for the assignment of special education units to school districts. AIR indicates that under the current system, the number of students with disabilities per special education unit varies greatly across districts from as low as 5 students in Lincoln County to a high of 19 in Lyon County, with a statewide average of 16 students per unit. According to AIR, the state's current method results in a disproportionate distribution of special education units between districts based on the number of students with disabilities per allotted unit.

The 50-state school finance survey conducted by AIR reveals that 6 states, including Nevada, use instructional unit approaches to pay for special education and related services, 7 states use a cost reimbursement mechanism, 9 states use a census-based approach, 20 states use a per-pupil weighted allocation methodology, and 16 states report other funding approaches that may be used in combination or singularly.

Consistent with the requirements of the study that the consultant provide recommendations for improving the state's public school finance formula, AIR proposes that the state consider one of the following four alternative options for funding special education (AIR's Final Report, pages 109 and 110):

1. Fixed Allocation Per Pupil – Divide state funding available for special education by the total number of students with disabilities. Multiply this per pupil amount by the count of students with disabilities in each district and state charter school to determine the amount available for each.
2. Weighted Pupil Funding – The application of a student weight based on a specific learning disability multiplied by the proportion of students by disability category for each district and the state charter schools. The consultant notes that weights vary by state.

Additionally, AIR reports that some disadvantages of using a weighted approach to funding special education include that while weights treat special students equitably, they do not provide incentives for efficiency, but may incentivize over identification rates and over classification of students in high-cost disability categories.

3. Weighted Pupil Funding Using Group Averages – To somewhat mitigate the incentive for over identification and classification, an alternative approach may be to consider weighted pupil funding using group-based average identification rates and group-based average proportion of students classified by disability. AIR

indicates that by grouping the districts, it reduces the ability of any one district to impact its own special education funding allocation.

4. Census-Based Approach Combined with a Contingency Fund – This approach provides funding based on an overall percentage of total students in a school district based on the assumption that over reasonably large geographic areas, the incidence of disabilities is relatively uniformly distributed. AIR notes that the census-based approach is usually combined with a contingency fund to help support the costs of severely disabled children who require extraordinarily high-cost services to reduce the likelihood that one or a few high-cost children with disabilities could cause excessive financial strain or even bankruptcy on small districts that may be less able to absorb such costs.

According to AIR, one of the advantages of this model is the flexibility it provides in how special education funding is used and greatly reduces, if not eliminates, any incentives for over identification or inappropriate classification of students with disabilities into high-cost categories.

Table 4.9 on page 99 of AIR's final report shows an analysis of the cost of implementing each of the four alternative special education funding models under a "hold harmless" provision. The costs for holding districts harmless, if the state moves forward with implementing one of the four alternative funding models for special education immediately, (as opposed to phasing any one of the new methods) range from \$7.3 million under the fixed per-pupil allocation approach to \$12.5 million for the census-based approach.

AIR acknowledges that each of the recommended options for a new funding model for special education may have implications for the MOE provisions of the federal law governing special education funding. Any hold harmless provision to protect school districts against MOE violations will require additional funding from the state. AIR notes, by holding districts harmless, no districts lose any funding to prevent dramatic losses of services.

As stated earlier, AIR strongly recommends using a phase-in of any selected funding alternative over a three to five-year period, which will allow local decision makers an opportunity to carry out any changes in resources in a thoughtful manner to reduce the severity of the impact on existing programs and students being served (AIR Final Report, page 112).

Other policy recommendations proposed by AIR pertaining to special education include (1) separating funding for gifted and special education students to follow the federal IDEA law supporting funding for students with disabilities, (2) consider integrating special education funding into the formula funding model with district by district or grouped weights, and (3) assessing the costs of serving students with disabilities.

Based upon the number of special education policy considerations proposed above, does the Committee wish to include a letter of recommendation in the Committee’s final report that a panel of education stakeholders be convened to further study and evaluate the recommended alternative special education funding models and other recommended policies for special education?

7. Alternatives for Determining Enrollment for Funding Allocations

Summary of Issue: Pursuant to NRS 387.1233, the weighted pupil enrollment in the Nevada Plan is determined by a single count day on the last day of the first month of a school district for a school year. This method does not provide any fiscal incentive to reduce absenteeism. AIR recommends that Nevada policymakers consider alternative options to the “single count day” approach to determining the enrollment on which school funding is allocated (AIR Final Report, page 111).

The first option for consideration is known as average daily membership. Under this approach, the state would establish multiple count days through the school year for counting students. As noted by AIR, this would allow the state to adjust funding through the course of the year to reflect changes in enrollment over time. New Mexico is an example of a state that counts enrollments at multiple points during the school year (counts of enrollment taken on the 40th, 80th, 120th days of the school year).

Additionally, AIR suggests a second option for consideration wherein the state would count students on the basis of average daily attendance, another approach used by a number of states. AIR indicates that with funding based on average daily attendance, school districts and charter schools are incentivized to find ways of maintaining or increasing enrollments. According to AIR, another benefit to utilizing an average daily attendance approach is that it tracks enrollment more closely and would permit the state to make adjustments to fiscal distributions more frequently during the school year.

Based upon AIR’s recommendation, the Committee may wish to consider the following options:

- a. Recommend legislation to amend NRS 387 to modify the state’s approach to determining the enrollment on which school funding is allocated. If this option is selected, does the Committee wish to recommend the average daily membership or average daily attendance approach?**
- b. Draft a letter to the Governor recommending that the Department of Education modify the state’s approach to determining the enrollment on which school funding is allocated. If this option is selected, does the Committee wish to recommend the average daily membership or average daily attendance approach?**

8. Flexibility Options for Categorical Funding

Summary of Issue: In addition to the per-pupil expenditures provided in the Nevada Plan, the Legislature has historically allocated categorical funding earmarked for specific educational purposes such as class-size reduction in grades K-3, early childhood education, the Regional Professional Development Program (RPDP), career and technical education and full-day kindergarten for some at-risk schools.

There are several advantages and disadvantages to providing categorical funding for education programs including:

Advantages:

- The funds are earmarked and must be spent for their intended purpose.
- Categorical funding is relatively easy to add to existing state legislation.

Disadvantages:

- Categorical funding is outside the basic support guarantee and therefore can be easily eliminated;
- Lack of flexibility with how the money can be used;
- Categorical funds are generally not equalized and thus may have an adverse effect on the overall equity of a state's funding allocation system; and
- Smaller districts with limited or no grant writing expertise/resources may have limited access to categorical funds that are awarded through grant applications.

Spurred by budget shortfalls during the recent economic downturn, some states have relaxed spending restrictions on categorical funding for education. For example, in 2009 the California Legislature voted to allow schools districts to spend categorical funds for any educational purpose. More recently, The Executive Budget for the 2011-13 biennium proposed shifting categorical funding to a block grant with the goal of providing flexibility while increasing student achievement. The 2011 Legislature ultimately did not approve the Governor's recommendation.

In its *Study of a New Method of Funding for Public Schools in Nevada*, AIR recommends convening a panel to review how existing categorical funding might be used more flexibly with greater accountability in place tied to improvement in outcomes for specific subpopulations of students (AIR Final Report, pages 112 and 113). As noted by AIR, categorical funding flexibility reduces the strict compliance mentality and shifts the focus to student outcomes.

In consideration of the recommendation provided by AIR, the following options are provided for the Committee's consideration:

- a. **Draft a letter to the Governor recommending that the Department of Education review how the state's existing categorical funding might be used more flexibly, with greater accountability and tied to improvement in outcomes for specific subpopulations of students.**

- b. Include a statement of support in the final report of the Committee that would recommend creating a panel of education stakeholders to review how the state's existing categorical funding might be used more flexibly, with greater accountability and tied to improvement in outcomes for specific subpopulations of students.**