

**Formula and Distribution Work Group
COMMISSION ON SCHOOL FUNDING
Friday, November 15, 2019
9:00 A.M.**

Meeting Location:

Office	Address	City	Meeting Room
Department of Education	2080 E. Flamingo Rd.	Las Vegas	Suite 114

SUMMARY MINUTES OF THE WORK GROUP MEETING

WORK GROUP MEMBERS PRESENT

Guy Hobbs
Dr. David Jensen
Paul Johnson
Mark Mathers
Punam Mathur

DEPARTMENT STAFF PRESENT

Heidi Haartz, Deputy Superintendent of Business and Support Services
James Kirkpatrick, Administrative Services Officer III

LEGAL STAFF PRESENT

David Gardner, Deputy Attorney General

SUBJECT MATTER EXPERTS PRESENT

Jeremy Aguero, Applied Analysis
Amanda Brown, Augenblick, Palaich and Associates

AUDIENCE IN ATTENDANCE

Meredith Freeman, Nevada PTA/HOPE for Nevada
Sylvia Lazos, Nevada Immigrant Coalition
Alexander Marks, Nevada State Education Association
Amanda Morgan, Educate Nevada Now
Julie Waller, Legislative Counsel Bureau

Agenda Item #1 - Call to Order

Work Group Lead Dr. David Jensen called the meeting to order at 9:00a.m.

Agenda Item #2 - Public Comment #1

Public comment will be taken during this agenda item regarding any item appearing on the agenda. No action may be taken on a matter discussed under this item until the matter is included on an agenda as an item on which action may be taken. A time limit of three minutes will be imposed by the Work Group Lead in order to afford all members of the public who wish to comment with an opportunity to do so within the timeframe available to the Work Group. Public comment #2 will provide an opportunity for public comment on any matter within the Work Group's jurisdiction, control, or advisory power.

No public comment.

Agenda Item #3 - Formula and Distribution Project Planning

The Formula and Distribution Work Group's charge includes reviewing base funding, the weights for categories of pupils, cost adjustment factors, and the distribution processes (Senate Bill 543 §11.1(a)(c)(e)). The Work Group will review the components of the Pupil-Centered Funding Plan and the statewide per-pupil base funding amount.

Formula and Distribution Work Group Lead Jensen, Vice Chair Hobbs, Member Mathers, Member Johnson and Member Mathur reviewed and analyzed the proposed model for the per-pupil funding base and the aggregation of dollars into the State Education Fund per §2 of Senate Bill 543 (SB 543), Revenue Streams.

[Discussion]

Member Johnson requested dollar amounts for each of the revenue sources to aid in understanding how much of an impact changes on any line item would have on total funding. The Work Group acknowledged that funding status is in a state of inadequacy, but that a goal of the Commission is to use a successful schools approach as their starting point, rather than an end point, and an associated goal is to increase revenues.

Vice Chair Hobbs noted that most of the revenue sources have been identified in preliminary modeling, and that those numbers are being validated for accuracy. Further work on revenue streams, such as orders of magnitude, and how to best utilize those revenue streams to address adequacy can be addressed in the modeling. Vice Chair Hobbs further requested a review of the manner in which sales tax is levied throughout the state, particularly in those areas exempt from sales tax implicitly or explicitly.

Member Mathur inquired about the role of the Commission in moving revenues into the State Education Fund.

Lead Jensen responded that the Group's role is to evaluate and agree if objectives or intentions have been encapsulated, and to annotate that agreement so that the Nevada Department of Education (NDE) may begin to analyze and configure data and budgets.

[Presentation]

Heidi Haartz, Deputy Superintendent for Business and Support Services, Nevada Department of Education, presented a working document of preliminary data on identified revenue sources for 2020.

The five areas of funding under SB 543 are referenced by letter, as they correspond to the bill. The revenue streams identified for the State Education Fund correlate to funding for sections C and D, School Districts, Charter, and University Schools, which make up the categories that align with the Statewide Base Per-Pupil Funding Amount; that amount is then used to create the cost adjustment factor and other factors and weights to be applied. Preliminary numbers estimate that the Statewide Base Per-Pupil Funding Amount would be \$8,785. This amount does not include federal dollars, transportation, or funding for Special Education and Gifted and Talented programs.

[Discussion]

Member Mathers inquired about whether the retail tax on recreational marijuana would be a funding source in the next biennium. Deputy Attorney General David Gardner noted that the legislature currently has these funds allocated to education; however, the legislature could change this in future, as there are no "permanent" allocations unless dictated in the constitution.

The Work Group discussed that one of the goals of the new funding formula and SB 543 is transparency, which translates to clear delineations of funding sources; this means that if the retail tax on recreational marijuana is allocated elsewhere by the legislature, the impact would be clearly demarcated and easily traceable within education funding.

Member Mathur inquired about the investment of categorical funds.

Deputy Superintendent Haartz noted that the revenue for State Categorical Grant Programs is reflected in the revenue table, under "General Fund." These funds are included in the amount provided by NDE through the Distributive School Account (DSA) for the basic support guarantee, general fund portion, and the general fund portion of the state funded grants. Deputy Attorney General Gardner added that categorical programs are an expense and not reflected on the table.

Vice Chair Hobbs suggested accepting the revenue streams as they are currently presented, but reserving the right to revisit, enhance, or modify the list when the discussion turns to adequacy.

The Work Group reached consensus that §2 accurately identifies the aggregation of funds and the special revenue fund for education, including interest earnings and restrictions on reversions, as well as general fund transfers.

Lead Jensen, Vice Chair Hobbs, Member Mathers, Member Johnson and Member Mathur reviewed and analyzed the Education Stabilization Fund.

[Discussion]

Vice Chair Hobbs inquired about the fund balance as it is currently defined in SB 543 and how it should be measured. Member Mathers suggested use of the unrestricted portion of each district's General Fund; he emphasized that only unrestricted funds should be used, and only the General Fund, when clarifying future legislation.

Deputy Superintendent Haartz remarked that it was within the Commission's purview ~~to e-make the recommendation~~ that the term "ending fund balance" be clarified moving forward.

Vice Chair Hobbs recommended discussion regarding special revenue funds and clarifying parameters around the general fund in order to assuage concerns about the use of special revenue funds. He also inquired if anything should be done to limit the buildup of excess in a non-general fund account.

Member Mathers clarified that Governmental Accounting Standards Board (GASB) 54 established that Special Revenue Funds are not to be used based on the intended purpose of the use of those funds, but based on the restriction of the revenue.

Member Johnson inquired what happens to funds which are not spent; for example, out of a \$1 million budget for Gifted and Talented, if expenditures are only \$950,000, does the remaining \$50,000 revert or become allocated?

Deputy Superintendent Haartz remarked that under SB 543, there would still be an end-of-year "true-up," through which enrollment and funds distributed would be reconciled. If a disbursement was made for 100 students, and there were only 99 students, those funds would

be returned to the State Education Fund, which is current practice. This practice extends to a disbursement made for 100 students when there were in fact 101 students; schools are paid for the number of students to whom they are providing services.

The Work Group reached consensus that the 16.6% threshold for the Education Stabilization Fund be sourced only from unrestricted General Fund dollars.

Member Mathers requested clarification on excess revenue allocation as it relates to the Stabilization Fund. Deputy Superintendent Haartz noted that if there are additional fund balances at the end of the fiscal year, those funds are moved into the Stabilization Fund. However, for budget building purposes, if revenue sources exceed expectations, the new amount would be included in the beginning funding for the next biennium.

Vice Chair Hobbs asked how many school districts were likely to be above the 16.6% marker in a given fiscal year; Lead Jensen reported three at minimum and as many as five.

Member Johnson suggested an appropriation to initially support the Stabilization Fund, in the amount of something such as 3%. Deputy Superintendent Haartz added that under the Pupil-Centered Funding Plan (PCFP), it is possible for funds to be transferred from the State Education Fund into the Stabilization Fund after the first fiscal year of implementation.

Member Mathur raised concerns that in an environment of inadequacy, an appropriation to the Stabilization Fund would mean not funding something else, particularly an element involving adequate funding for student achievement measures.

Deputy Superintendent Haartz suggested exploring the possibility of placing a \$100 General Fund appropriation into the Stabilization Account, which could then create an opportunity to go the Interim Finance Committee (IFC) Contingency Fund to request a supplemental appropriation until such time as there are sufficient funds in the Stabilization Account.

The Work Group reached consensus that the 16.6% threshold is reasonable for the Education Stabilization Fund, with caveats for those counties which are above the threshold.

Lead Jensen, Vice Chair Hobbs, Member Johnson, Member Mathers, and Member Mathur reviewed and analyzed the practicality of the requirement that the pupil-based funding increased with state revenue and should not be less than the base of the prior year, per SB 543 §§4 and 9. They also reviewed and analyzed base funding increases proportionate to state revenue increases and conversely with revenue decreases.

Member Johnson voiced his support for the structures of SB 543 which respond to previous issues of erosion. Lead Jensen referenced §9.2.A, which clarifies that the base would be the prior year's base plus no less than inflation in growth. Vice Chair Hobbs noted that he felt this was one of the strongest commitments of the bill to funding education and indicated that he would not recommend making any changes to this element.

Lead Jensen had concerns about §§9.4 and 9.5, which notes the ability of the governor to make changes. Member Mathur expressed hope that the measure would serve as a check-and-balance which did not previously exist.

The Work Group reached consensus around support for the language regarding funding increases that reflect the base of the prior year and no less than inflation in growth, and funding increases proportional to state revenue increases; they similarly accepted the language regarding the proportional reduction of funds upon the decrease of local revenues.

Lead Jensen, Vice Chair Hobbs, Member Johnson, Member Mathers, and Member Mathur analyzed and discussed inflation and hyperinflation.

Member Johnson noted that the bill defined inflation based upon the Consumer Price Index for the Western United States. He raised concerns about school districts surpassing this rate of inflation, which they historically have for several decades, specifically regarding wage increases which may erode the inflation index, as well as fuel, health insurance, and other items which may increase above the inflation index. Lead Jensen agreed that this element would need further consideration when addressing adequacy.

Vice Chair Hobbs requested that members submit items for clarification or analysis to subject matter experts prior to meetings through their Leads and Commission Chair Karlene McCormick-Lee to prepare for future meetings. Lead Jensen supported the suggestion.

[Presentation]

Amanda Brown, APA Consulting (APA), presented on the Comparable Wage Index (CWI).

Ms. Brown's presentation explained that cost differences within a state can be viewed three ways: cost of living indexes, hedonic wage indexes, and comparative wage indexes. CWI was first developed for the National Center on Education Statistics, and was last updated in 2004; it has been unofficially updated by Texas A&M as recently as 2013. She shared that these statistics are sourced from employment data collected by the Bureau of Labor Statistics across approximately 800 occupations, of which 500 were used for the data pool. The Bureau of Labor Statistics utilizes Public Use Microdata Areas (PUMAs), geographical units containing at least 100,000 people; this ultimately represents many of the rural regions of Nevada as one unit.

APA has been asked to create a Nevada-specific CWI. To do that, APA is exploring which occupations are included, the most recent data available, and data collected by the Nevada Department of Labor which is county specific. Considerations will include the volatility in data created by scarcity and which approaches the state would prefer.

Ms. Brown noted that APA hoped to have data prepared to present in January.

[Discussion]

Lead Jensen inquired if current CWI analyses include only bachelors-level data and above. Member Johnson also raised concerns with current CWI analyses only including professional-level employees, while over half of school employees are support staff.

Ms. Brown indicated that APA would expand their analyses to include individuals without a bachelor's degree, if possible, and that APA's analysis would include the percentage of employees that are salaried. She also noted that it may be possible to apply a CWI to a specific component of the funding and that Nevada may wish to reflect using a wage index with added components to create their cost factor. Ms. Brown encouraged stakeholder engagement to aid

in understanding the various cost pressures a given community is facing which may be considered as factors in CWI analyses.

Member Mathers supported APA's goals to provide a CWI reflective of modern Nevada demographics.

Deputy Superintendent Haartz noted that SB 543 refers to cost adjustment factors, so APA has latitude in their work to look beyond a CWI.

Vice Chair Hobbs inquired if it would be possible to see Alaska's wage index components and factors to better understand how Nevada may create a nuanced approach.

Ms. Brown agreed that as they presented options, they would include comparisons for how various choices affect the mathematics of the index.

Member Johnson asked how teacher wages are factored into the index.

Ms. Brown responded that CWI currently excludes teachers' wages and looks at comparable wages.

Member Johnson agreed that the practice works in an adequacy study.

Member Johnson emphasized the Commission as an active participant in shaping the studies and policies presented, and not solely a recipient of them in their final form.

Member Mathur asked about the priorities of the types of recommendations the Commission would like to make and in what order, given the time constraints they are under.

Deputy Superintendent Haartz noted that the Commission would have multiple opportunities to provide recommendations: general adjustments after the plan has been run in the spring after review of the current school district budgets with the proposed budgets; upon presentation to the governor and legislature; ongoing to the Department as weights and measures such as cost adjustment factors are reviewed; and upon presentation to the Legislative Committee on Education.

Lead Jensen requested clarification on how the Work Group could best support a "standing" version of the formula, given time restraints.

Deputy Superintendent Haartz responded that with assistance from Applied Analysis, the process would be evolutionary between the Commission and the Department. Deputy Haartz further clarified that the Commission has the opportunity to provide a recommendation, but SB 543 requires the Department to create regulations which identify the methodology that supports the calculation of the cost adjustment factor.

Convenience Break

[Presentation]

Amanda Brown, APA, presented on recommended weights for the following categories: At-Risk; Special Education; English Learners (EL); and Gifted and Talented Education (GATE).

Ms. Brown presented that the scope of APA's study was to make new adjustments to weighted categories. APA evaluated prior work done in 2006 and 2015, the weights suggested in those studies, and the 2012 AIR study. APA examined multiple approaches, including evidence-based and professional judgement. They also evaluated the last ten years of national adequacy studies. She indicated that all recommendations are state and local weights, absent federal dollars.

APA recommended an At-Risk weight of 0.3; English Learners (EL) of 0.5, Special Education of 1.1, and Gifted and Talented Education (GATE) of 0.05.

[Discussion]

Member Mathur asked for clarification regarding the weights recommended to the legislature.

Jeremy Aguero, Applied Analysis, joined discussion with the Work Group on recommended weights.

Member Mathur asked for clarification regarding whether categorical funding was considered in assigning the weights.

Mr. Aguero responded that the initial weight, the aggregate funding of various categoricals which is allocated to programs such as EL and GATE were the weights being discussed currently. There are also aspirational weights, which are included in APA's work, which are the goal weights to reach once revenue has fully funded the base and excess can be channeled to weighted categories.

Lead Jensen inquired if excess funds would go to all aspirational weights equally, or if funds could be targeted towards certain programs.

Mr. Aguero noted that the language of SB 543 provides discretion.

Vice Chair Hobbs also clarified that SB 543 was drafted to pivot towards existing appropriations, and that it serves as the starting point.

Mr. Aguero clarified that the base and weights had an inverse relationship.

Member Mathur inquired about the assignment of weights to students who are in more than one eligible program and if other states were "stacking" weights.

Ms. Brown noted that different states use a variety of methods, including assignment by "stacking" and assignment by "heaviest," among others.

Member Johnson inquired about the validity of having multiple weights, in the case of a program such as Special Education, which has variable levels of need by student.

Ms. Brown responded that a number of states provide differentiated funding based on need. Some states utilize disability category, need level, cost level, and others. Most states also have a high-cost pool in addition to weights.

Member Johnson asked if APA had reviewed the weights recommended by the K-12 Taskforce for Education Funding, which was active several years prior.

Ms. Brown believed APA had reviewed the material, but was unsure of any outcomes.

Member Mathur asked if work on optimal weights and strategies to implement optimal measures was within the scope of work in the contract with APA.

Deputy Superintendent Haartz noted that due to funding measures, the Department would need to go through the formal solicitation process to select vendors who could assist in conversations pertaining to optimal funding.

Agenda Item #4 – Future Agenda Items

Lead Jensen requested information on the manner in which state taxes are levied to include taxes that are exempt; information relative to cost adjustment factors, including APA presenting information on Alaska and other similar states; information on weights and current allocations or categoricals; validation of current revenue streams and figures; and information for identifying additional streams.

Agenda Item #5 - Public Comment #2

Public comment will be taken during this agenda item on any matter within the Work Group's jurisdiction, control, or advisory power. No action may be taken on a matter raised under this item until the matter is included on an agenda as an item on which action may be taken. A time limit of three minutes will be imposed by the Work Group Lead in order to afford all members of the public who wish to comment with an opportunity to do so within the timeframe available to the Work Group.

Sylvia Lazos, Nevada Immigrant Coalition, commented regarding weights for student populations, particularly as they relate to equity and equal protection in the Nevada Constitution. She said that it's important that the base funding ultimately has to "make ends meet." She indicated that section 6 of the education article of the Nevada Constitution says "the Nevada Legislature must provide sufficient funds to run a system of public schools," which relates to the Commission's conversations about adequacy. She added that the equal protection clause as interpreted by the Nevada Supreme Court does not have case law, but there have been statements by the Nevada Legislature as to how they have been thinking about equality and equity. She shared, for example, that Zoom bill's preamble includes statements of services English Learners should have and that special education support is governed by federal law. Ms. Lazos wanted to ensure that the Commission was thinking about adequacy for each student population. She also indicated her hope that the Commission would think critically about the definition of at-risk students.

Agenda Item #6 – Adjournment

The meeting adjourned at 11:55a.m.