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District Adjustments: Nevada Cost of Education Index and Attendance Area Adjustment

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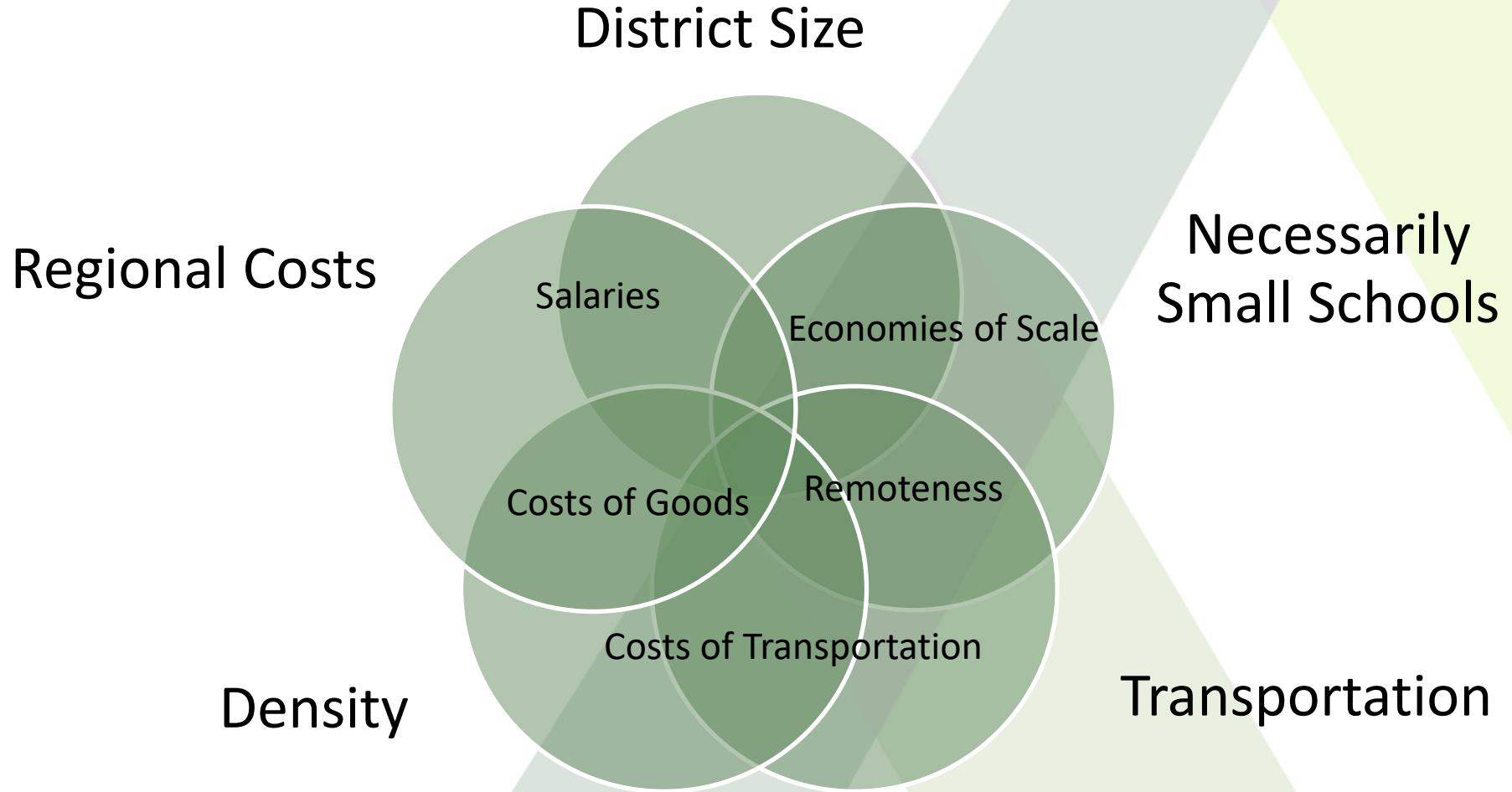
Presentation Overview

Overview of District Adjustments

- Review Regional Cost Adjustments (RCAs)
 - Provide an update on states with RCAs
 - Highlight underlying RCA philosophies
 - Revisit Nevada Cost of Education Index (NCEI)
- Review Size Adjustments
 - Recap how states adjust for size of schools and districts
 - Review how the Attendance Area Adjustment was developed

OVERVIEW OF DISTRICT ADJUSTMENTS

Overlapping District Characteristic Adjustments



District Characteristic Adjustments Nationally

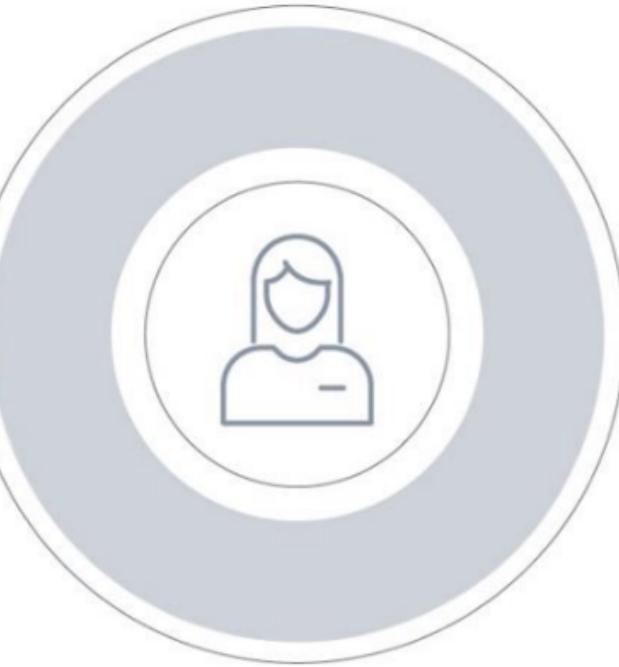
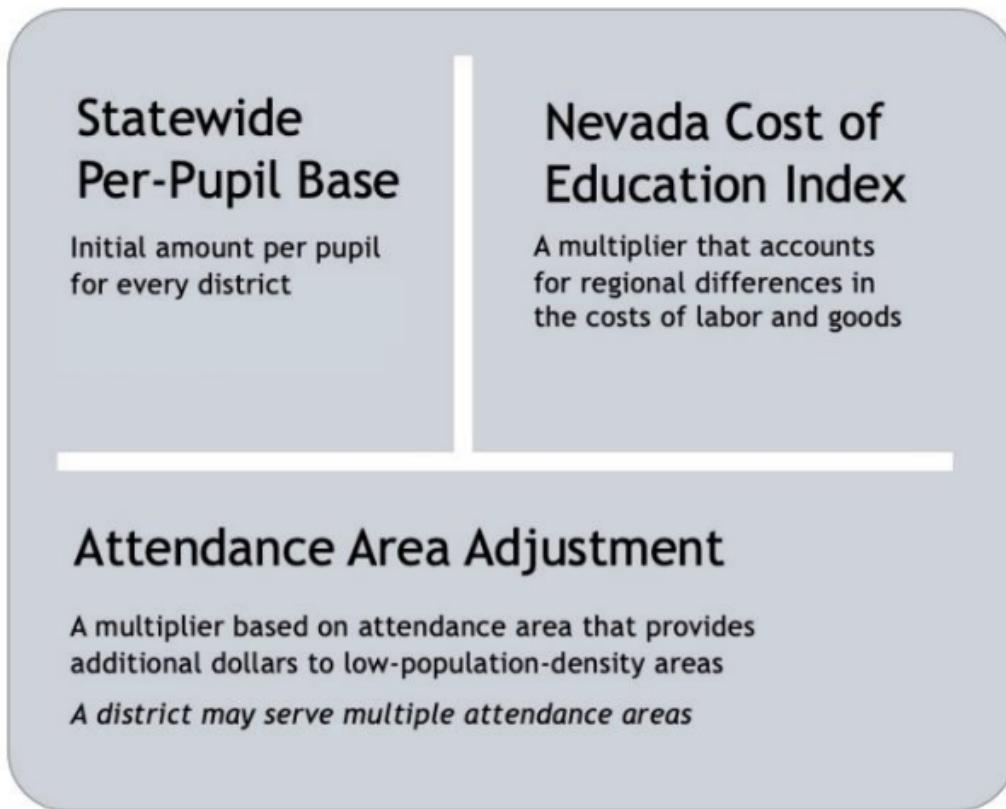
Types of district characteristic adjustments include district size, necessarily small schools, density, and regional cost differences.

- 21 states adjust for district size
 - Nevada is unique in that it adjusts for attendance area size (treating attendance areas as “districts within districts” that have greater diseconomies of scale and higher costs to operate)
- 12 states adjust for schools that are small, primarily due to geographic isolation
- 14 states adjust for density
 - Density adjustments usually in place of a district or school size adjustment, or a requirement to receive size funding
 - Some provide additional funding if both small and sparse (in addition to size adjustment)
 - Definitions usually based on students per square mile
- 15 states adjust for regional cost differences

District Characteristic Adjustments in Other States

- Most states have one to two district characteristic adjustments.
 - Eleven states have no district characteristic adjustments.
 - Two states have three adjustments.
 - New York and Texas (RCA, District Size, Density)
 - Wyoming (RCA, District Size, Necessarily Small Schools)
- Eight states also provide differentiated transportation funding (not as a formula adjustment) specifically due to density.
 - Some other states, including Wyoming, provide transportation funding based on actual district expenses, which would account for increased costs based on density.

Nevada District Characteristic Adjustments



Adjusted Per-Pupil Base Allocation



REGIONAL COST ADJUSTMENTS

APPROACHES AND THE NEVADA COST OF EDUCATION INDEX

Regional Cost Adjustment Approaches

There are three primary types of indices that can be used to make a regional, or geographic, cost adjustment:

- **Cost-of-Living Index (COL).** Usually created by determining the cost for a given set of goods — often termed a “market basket” — in different locations
- **Hedonic Wage Index (HWI).** Uses regression analysis to predict wages by dividing the variation in *actual* wages across districts into spending that is and is not within the control of the districts
- **Comparable Wage Index (CWI).** Uses regional differences in noneducator wages based on the recognition that if wages in comparable professions are higher in a given region, then teacher wages will also have to be higher

Regional Cost Adjustments in Other States

	Index name	Index type
Alaska	District Cost Factor	Hedonic Wage Index
Colorado	Cost of Living Factor	Cost of Living Index
Florida	District Cost Differential	Comparable Wage Index
Illinois	Regionalization Factor	Comparable Wage Index
Kansas	Cost-of-Living Weighting	Cost of Living Index*
Maine	Regional Labor Market Area Adjustment	Hedonic Wage Index
Maryland	Comparable Wage Index	Comparable Wage Index
Massachusetts	Wage Adjustment Factor	Comparable Wage Index
Missouri	Dollar Value Modifier	Comparable Wage Index
New Jersey	Geographic Cost Adjustment	Comparable Wage Index
New York	Regional Cost Index	Comparable Wage Index
Virginia	Cost of Competing Adjustment	Comparable Wage Index (Adjustment)
Wyoming	Regional Cost Adjustment	Cost of Living Index, Hedonic Wage Index (uses best of)

* Grant only for high-cost districts that apply

Possible Philosophies

Underlying each type of RCA is a philosophy or issue that a state is trying to resolve:

- Cost of labor to districts
- Cost of living for staff working in districts
- Cost of doing business for districts

Cost of Labor

- The underlying philosophy of cost of labor adjustments is that states should be responsible only for the costs of labor differences incurred by districts, not the full cost of living differences.
- Cost of labor adjustments assume that the cost of living in a community is not the only factor that impacts wages and needs to be taken into account.
 - While a community may have a high cost of living, wages may remain lower due to factors (locale, amenities, etc.) that enable a community to attract staff *in spite of* a high cost of living.
 - Conversely, communities with a lower cost of living may have more difficulty attracting staff due to a lack of amenities or other such factors.
- Modern CWIs and HWIs are both cost of labor adjustments.
 - Virginia is unique in that it specifically addresses competitiveness with neighboring states for a subset of districts.

Cost of Living for Staff

- The underlying philosophy of cost of living for staff adjustments is that the system should ensure that employees can afford to live in, or near, the communities where they work.
 - This means that adjustments are made for districts with higher overall costs of living.
- States often use a basket of goods/services to create this type of adjustment.
- Currently, only Colorado and Wyoming utilize this type of adjustment.
 - Wyoming uses both a cost of labor (hedonic) and a cost of living adjustment; districts receive the highest value from either calculation (or 1.0 as a floor).

Cost of Doing Business

- The philosophy underling cost of doing business adjustments is that districts experience different cost pressures due to their location that are not limited to only labor costs.
- Cost of doing business adjustments try to account for the full differences in costs faced by districts, including personnel and goods/services.
 - The adjustments must determine the weighting for different components and establish which approaches to use to measure personnel and goods/services cost differences.
- Alaska's District Cost Factor is an example of another state using a comprehensive cost of doing business adjustment.

Nevada NCEI

- **Philosophy** — The philosophy evolved over the course of the Commission's work, expanding from just a wage-based adjustment to one that recognizes the other cost pressures faced by school districts.
 - Uses a cost of labor adjustment (CWI) applied to personnel costs
 - Uses a cost of doing business adjustment for the remaining nonwage costs
 - Does **not** use/include a cost-of-living adjustment
- **Frequency of updating** — updated every two years
- **Data source** — uses federal databases that historically have been updated frequently, such as the U.S. Census Data for CWI, Bureau of Economic Analysis (BEA) Regional Price Parities (RPPs) for Goods Index for nonwage costs
 - Continued availability of federal data is a recent concern.
- **Full or truncated use of factors** — currently all districts set to 1.0, but previous decision was to apply factors fully, both above and below 1.0

NCEI Benefits Discussed by Commission

- Data suggests that while there is not a wide range in differences, there are regional cost differences between districts.
- The NCEI takes into consideration both the wage and nonwage cost pressures districts face.
- Using the CWI to account for wage differences is:
 - In line with best practices from school finance research and
 - Consistent with the approach used in most other states that have an RCA.

NCEI Drawbacks Discussed by Commission

- Lack of agreement on the philosophy of what the NCEI is trying to solve for
 - The NCEI cost of labor/education adjustment and not a cost-of-living adjustment
- Relies on federal data, so there is limited specificity of adjustments (limited number of places data is available and cannot produce a district or county specific adjustment)
 - State-produced labor data from the Dept. of Employment Training and Rehabilitation (DET) is not available at the individual level so cannot be used for a comparable wage index
- RCAs still not used by many states (currently only in 13 states)
 - The range of adjustments very small compared to other states
- Requires time and incurs costs to update
- Impacts of year-to-year fluctuations on districts would need to be accounted for
- Scale of reductions if NCEI applied is less than 1.0, negating the impact of other adjustments (like size)

SIZE ADJUSTMENTS AND THE ATTENDANCE AREA ADJUSTMENT

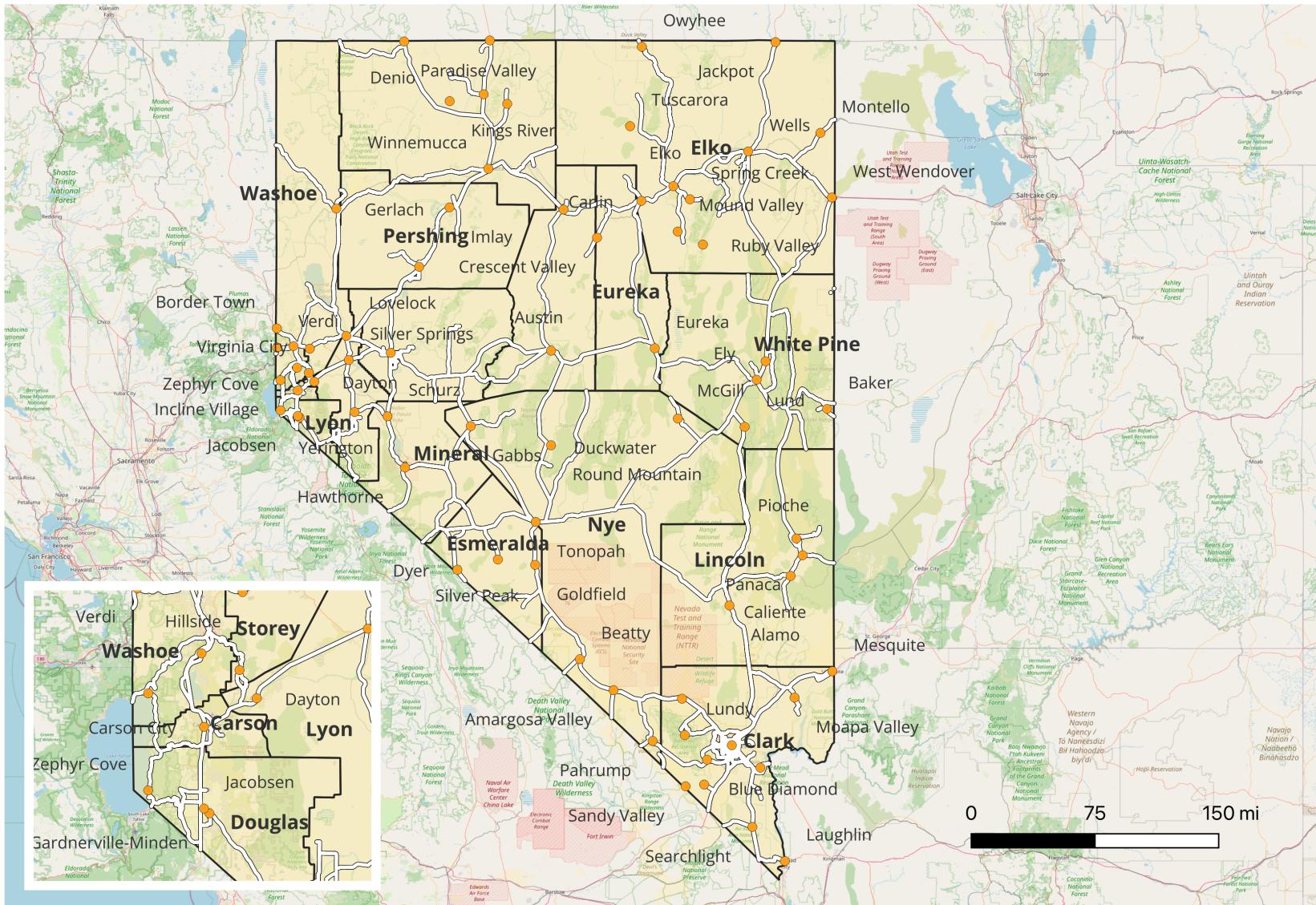
Attendance Areas in Nevada

- Nevada's school districts are countywide and often cover large geographic areas.
 - Many districts serve smaller, more remote attendance areas that are more expensive to operate.
 - Attendance areas reflect "districts within districts."
- Attendance areas were identified in the prior Nevada Plan funding model:
 - Developed based on city centers or towns that are geographically isolated
 - At the time, there did not appear to be a formal definition or criteria in place, so the Commission discussed and recommended criteria for what constituted an attendance area for funding purposes

Attendance Areas by District

District	Enrollment (FY27)	Sq. miles	Number of attendance areas
Carson City	6,970	145	1
Churchill	3,074	4,931	1
Clark	285,879	7,892	11
Douglas	4,791	710	3
Elko	9,235	17,169	11
Esmeralda	81	3,582	3
Eureka	298	4,176	2
Humboldt	3,136	9,641	6
Lander	970	5,490	2
Lincoln	870	10,633	4
Lyon	8,934	2,001	5
Mineral	510	3,753	2
Nye	5,457	18,182	7
Pershing	636	6,037	2
Storey	395	264	2
Washoe	58,817	6,301	8
White Pine	1,231	8,875	4

Nevada attendance zones



Development of the Attendance Area Adjustment

- Coming out of the 2018 adequacy study, there were two adjustments related to district/school size:
 - District size adjustment
 - Developed based on professional judgment work to account for different economies of scale/increased costs in smaller settings
 - Necessarily small schools adjustment
 - Developed after reviewing similar adjustments in other states; modeled after Wyoming's approach
- At the Commission's recommendation, APA:
 - Explored how the size adjustments compared to the Nevada Plan Basic Support Ratio (BSR)/AIR study and current expenditures in a sample of districts and
 - Modeled application at the attendance area as an alternative.

Development of the Attendance Area Adjustment (cont.)

- Based on this analysis, APA recommended, and the Commission adopted, the following:
 - Applying the adjustment at the attendance area level
 - Using the same curve (formula) as the district size adjustment but adjusting the tail of less than 20 students to be more similar to the resource level generated with the necessarily small schools adjustment to create a single formula
- Rationale
 - Applying at the attendance area level was closer to the Nevada Plan Model and actual district expenditures.
 - Having a single formula was easier to apply and more transparent.

How the Attendance Area Size Adjustment Is Applied

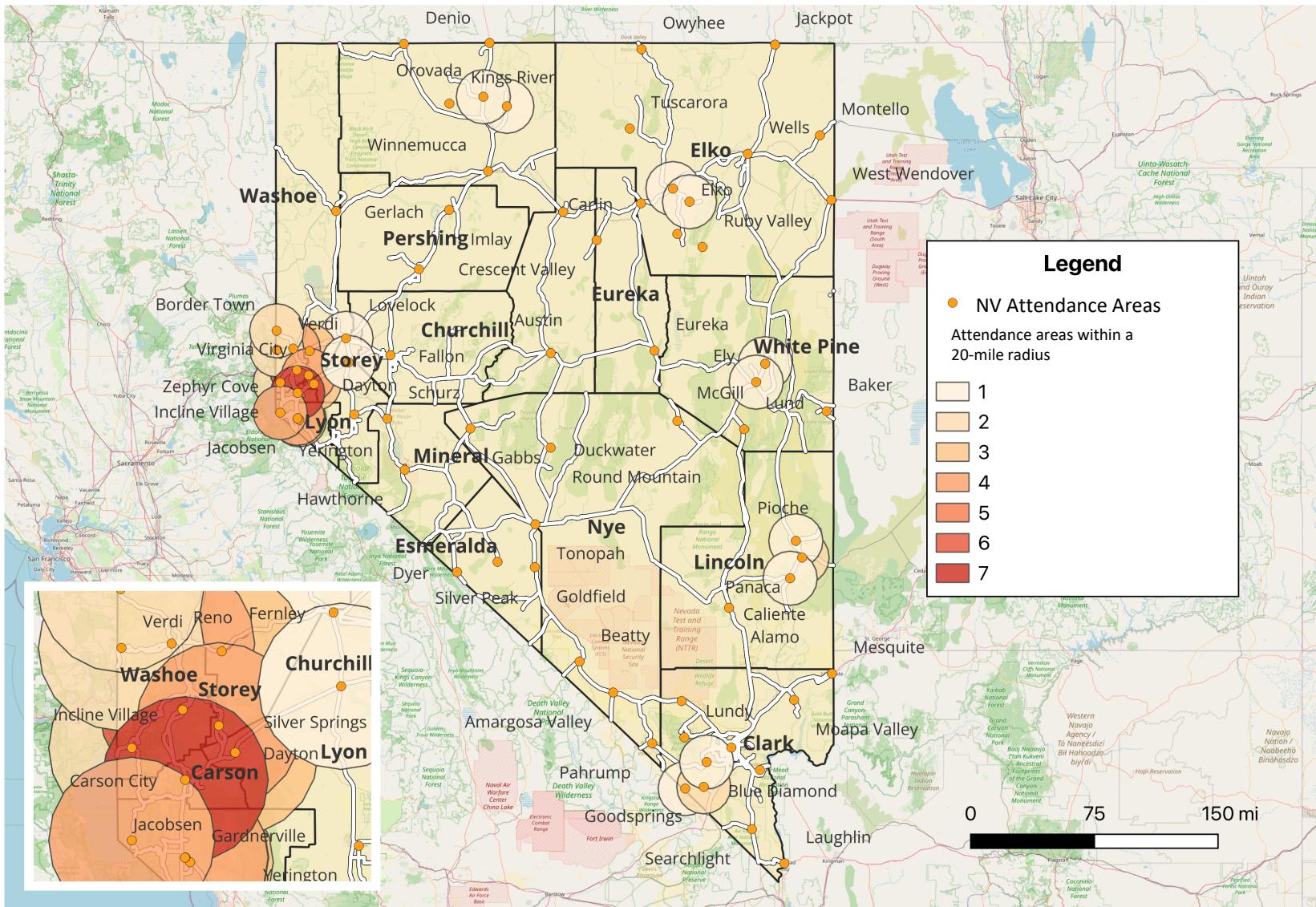
Attendance Area	Enrollment	Size Factor
A	2,000 students	1.26
B	1,000 students	1.46
C	500 students	1.65
D	500 students	1.65
		1.41

- In a hypothetical district of 4,000 students with four attendance areas:
 - Applied at the district level, the size adjustment would have produced a size factor of 1.08.
 - Applied at the attendance area in that same district, the combined size adjustment would be 1.41.

Commission Discussion of Criteria for Funding Attendance Areas

- Criteria for being an attendance area should be well defined and consistently applied.
- Potential considerations:
 - Distance from another attendance area
 - In reviewing how other states define *remote* for funding purposes (typically related to transportation or necessarily small schools/district funding purposes), distance requirements range from 8 to 30 miles away.
 - Initial mapping of 10- and 20-mile radii (both within and across districts)
 - Geographic barriers/road conditions

Attendance zones within 20 miles of one another



Commission's Recommended Attendance Area Criteria

The Commission approved the following criteria to determine attendance areas for funding purposes based on (a) distance, (b) travel time, and (c) extenuating circumstances.

An attendance area should be separated by more than 20 miles from another attendance area.

If less than 20 miles from another attendance area, attendance area must be more than a 30-minute drive away from a district's central office.

If attendance area is less than a 30-minute drive, it must have extenuating circumstances that necessitate a separate attendance area, subject to approval.

Additional Commission Recommendations

The Commission recognized that there may be extenuating circumstances in a number of attendance areas that likely necessitate them being kept separate for funding purposes (such as geographic barriers/road conditions).

- Instead of the Commission evaluating each attendance area, the Commission recommended that NDE establish a review/appeals process for districts:
 - An exemption should be given for extenuating circumstances related to an attendance area being remote or necessarily small.
 - Attendance areas should be reviewed at least every other biennium to see if circumstances have changed.



Questions?